SWARTLAND MUNICIPALITY

LONG TERM FINANCIAL PLAN

March 2015

Munisipaliteit
Municipality
Umasipala

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1. SECTION 1: PURPOSE AND KEY OUTCOMES OF THE LONG TERM FINANCIAL PLAN

Section 215 of the Constitution of the Republic of South Africa requires that all National, Provincial and Municipal budgets and budgetary processes promote the following principles -

- Transparency;
- Accountability; and
- The effective financial management of the economy, debt and the public sector.

In order to fulfill this constitutional obligation towards the citizens of South Africa, sound financial principles and policies should be adopted by all municipalities. These policies should ensure that municipalities remain financially viable while also delivering high quality basic services.

The Municipal Budget and Reporting Regulations (section 7) requires the Accounting Officer (Municipal Manager) to prepare, or take all reasonable steps to ensure the preparation of the Budget Related Policies of the municipalities which includes a policy relating to the long term financial plan. This indicates that there must be:

- A Long Term Financial Plan Policy which guides the preparation of a long term financial plan; and
- A Long Term Financial Plan.

The long term financial plan is considered to be one of the most important plans, as this plan does not only incorporate various development and implementation plans for the provision of basic services, it is also aims to assist Municipal- Councillors and Management to make informed decisions relating to the provision of basic services and capital programs and the funding thereof.

Goals and objectives, which constitute the core of the financial plan, should be established for the short term (12 months), medium term (2 – 5 years) as well as the long term (beyond 5 years). These goals and objectives should guide all budget and policy related decisions of the municipality and should directly inform the Municipality's estimated expenditure over the medium to long term.

2. SECTION 2: STRATEGIC ALIGNMENT

The development of the Long Term Financial Plan is an output of financial and other strategies and aims to identify financial imbalances or opportunities and to develop strategies to counteract the imbalances.

The plan is informed, but not limited, to the following:

- Legislative Framework within which the municipality operates;
- Integrated Development Plan;
- Municipal Policies adopted;
- Master plans;
- National Development Plan;
- Provincial Strategic Plans;
- Sector Plans; and
- By-laws.

The National Development Plan identified the following challenges that need to be addressed in all policies in the public sector:

- Too few people work;
- The quality of school education for black people is poor;
- Infrastructure is poorly located, inadequate and under-maintained;
- Spatial divides hobble inclusive development;
- The economy is unsustainably resource intensive;
- The public health system cannot meet demand or sustain quality;
- Public services are uneven and often of poor quality;
- Corruption levels are high; and
- South Africa remains a divided society.

Accordingly, the IDP (as amended) of Swartland is aligned to National and Provincial priorities and can be summarised as follows:

Swartland Municipality IDP Outcomes (2012 as amended)	District Municipality IDP (2012 as amended)	Provincial Strategic Plan (2014-2019)	National Development Plan (2012)
1 A financially sustainable municipality with well-maintained assets	5 To ensure good governance and financial viability		Chapter 13: Building a capable and developmental state
2 Satisfied, involved and well informed clients			
3 An effective, efficient, motivated and appropriately skilled work force			Chapter 9: Improving education, training and innovation
4 Access to affordable and reliable municipal infrastructure	4 To provide essential bulk services to the district		Chapter 4: Economic infrastructure
5 Sustainable development of the municipal area - urban and rural environment	1 To ensure the environmental integrity of the district is improved	4 Enable a resilient, sustainable, quality and inclusive living environment	Chapter 5: Environmental sustainability and resilience
5 Sustainable development of the municipal area – economic development	2 To pursue economic growth and the facilitation of job opportunities	1 Create opportunities for growth and jobs	Chapter 3: Economy and employment Chapter 6: Inclusive rural economy
5 Sustainable development of the municipal area – Social development	3 To promote the social well–being of residents, communities and targeted social groups in the district	2 Improve education outcomes and opportunities for youth development 3 Increase wellness, safety and tackle social ills	Chapter 8: Transforming human settlements Chapter 10: Health care for all Chapter 11: Social protection
6 A lean, integrated, stable and corruption free organisation		5 Embed good governance and integrated service delivery through partnerships and spatial alignment	Chapter 14: Fighting corruption Chapter 15: Nation building and social cohesion
7 Increased community safety through traffic policing, by-law enforcement and disaster management			Chapter 12: Building safer communities

The National Development Plan (NDP) establishes the long term goals and objectives of Government to which all spheres of Government should aim to achieve. Listed below are the relevant sections of the NDP which will have a direct and significant effect on the municipality's long term financial plan:

Indicator	NDP 2030 Target	Swartland 2011 Status
Poverty	Zero households below the R419 monthly income poverty line (2009)	10.5% of Swartland's households had no income. An additional 1.7% earns between R1 - R4 800 annually.
Per capita income	Per capita income of R110 000	Per capita income of R27 923 is already below the starting point of R50 000 per capita on a national level in 2009.
Unemployment	6%	10.2% in 2001 and 12.7% in 2011 is an increasing trend. This must be turned around.
	Raise employment in public employment programmes to a national 1 million in 2015 and 2 million by 2030.	The Municipality has to play its part in this regard.
Economic growth	5.4% per annum	3.7% per annum between 2000 and 2011.
Access to basic services	Access to electricity at 95%	Access to Electricity at 98% which is within target.
	Expansion of the renewable energy sources including a national target of 5 million solar water heaters by 2030	
	100% access to clean potable water	97% access to clean water

Service Delivery Backlogs remains one of the major challenges of all municipalities in South Africa. Swartland is no exception to the rule and is also confronted with various backlogs in the municipal area. It is however a balancing act to ensure backlogs is eradicated, while still ensuring that the municipality remains financially viable.

Service delivery backlogs, as informed by the various area plans, can be summarised as follows:

Town	Services and backlogs				
	Sewerage	Water	Storm water	Electricity	Streets
Moorreesburg	▪ WWTW must be upgraded, not sufficient treatment capacity and the infrastructure is obsolete resulting in high maintenance costs and poor performance.	▪ Obsolete infrastructure, pipe breakages, leaking valves, leaking hydrants ▪ Poorly developed network, shortage in shut-off valves. ▪ Secondary Chlorination at reservoirs must be implemented	▪ Maintenance to No-Go River ▪ Regular blockages and flooding in Rosenhof ▪ Upgrading of system in the vicinity of Royal street	▪ Replacement of obsolete infrastructure including switchgear and low voltage networks	▪ Backlog in resealing program, deterioration of road infrastructure
Koringberg	▪ Sewer reticulation network poorly developed and must be extended ▪ Waste Water Treatment Works is overloaded and must be upgraded	▪ Poorly developed network, small diameter pipes, low pressure and flow condition and open ring mains. ▪ Sections of the water reticulation network is obsolete and must be upgraded ▪ Secondary Chlorination	▪ No formal piped storm water drainage system ▪ Many channels are unlined causing erosion and maintenance problems	▪ Eskom area of supply	▪ Backlog in resealing program, deterioration of road infrastructure ▪ Many roads are not constructed with kerbstone and formal sidewalks

Town	Services and backlogs				
	Sewerage	Water	Storm water	Electricity	Streets
		at reservoirs must be implemented			
Riebeek West and Riebeek Kasteel and Ongegund	▪ Water borne sewage system must be extended in Riebeek West.	▪ Poorly developed network, small diameter pipes, low pressure and flow condition and open ring mains. ▪ Sections of the water reticulation network is obsolete and must be upgraded ▪ Secondary Chlorination at reservoirs must be implemented ▪ Poor condition of Ongegund reservoir and pump station – must be upgraded	▪ Poorly developed infrastructure, regular flooding in the surroundings of Dennehof Street and Esterhof	▪ Eskom area of supply ▪ PPC town's network, capacity for development is limited ▪ Street lighting inadequate	▪ Backlog on resealing program, deterioration of road infrastructure ▪ Many roads are not constructed with kerbstone and formal sidewalks
Darling	▪ Regular blockages in Darling North ▪ Waste water treatment works is overloaded and must be upgraded to supply future demand ▪ Water borne sewage system must be extended to the industrial area.	▪ Poorly developed network, small diameter pipes, low pressure and flow condition and open ring mains. ▪ Sections of the water reticulation network is obsolete and must be upgraded ▪ Reservoir capacity	▪ Poorly developed system in Darling, upgrading of open channels along streets ▪ Many areas have no formal piped system. ▪ Many channels are unlined causing erosion and maintenance	▪ Replacement of obsolete infrastructure including switchgear, mini-substations and low voltage networks	▪ Backlog of resealing program, deterioration of road infrastructure ▪ Many roads are not constructed with kerbstone and formal sidewalks

Town	Services and backlogs				
	Sewerage	Water	Storm water	Electricity	Streets
		must be increased for further developments ▪ Water supply to the industrial area must be increased to supply future demand	problems.		
Yzerfontein	▪ Yzerfontein has no formal waste water treatment works with no water borne sewer system.	▪ Secondary Chlorination at reservoirs must be implemented	▪ Poorly developed system in the area of Carter street, Buitekant Street, 6th Avenue and Felicia Crescent	▪ Development in Yzerfontein subject to: - Eskom application for increased capacity - 2nd supply line and cable ▪ Only smaller developments may continue in the short term	▪ Backlog of resealing program, deterioration of road infrastructure
Riverlands and Chatsworth	▪ Water borne sewer system must be extended in Chatsworth ▪ WWTW must be upgraded.	▪ Secondary Chlorination at reservoirs must be implemented ▪ Shortfall in reservoir storage capacity, new reservoir must be constructed. ▪ Bulk supply system cannot supply in the demand during peak months. ▪ Water supply is under	▪ Formal system limited to housing projects and 5th Avenue Chatsworth ▪ Regular flooding of residences and erven ▪ Upgrading of storm water infrastructure (Chatsworth)	▪ Eskom area of supply ▪ Street lighting inadequate	▪ Upgrading of gravel roads ▪ Construction of a bus route in Chatsworth

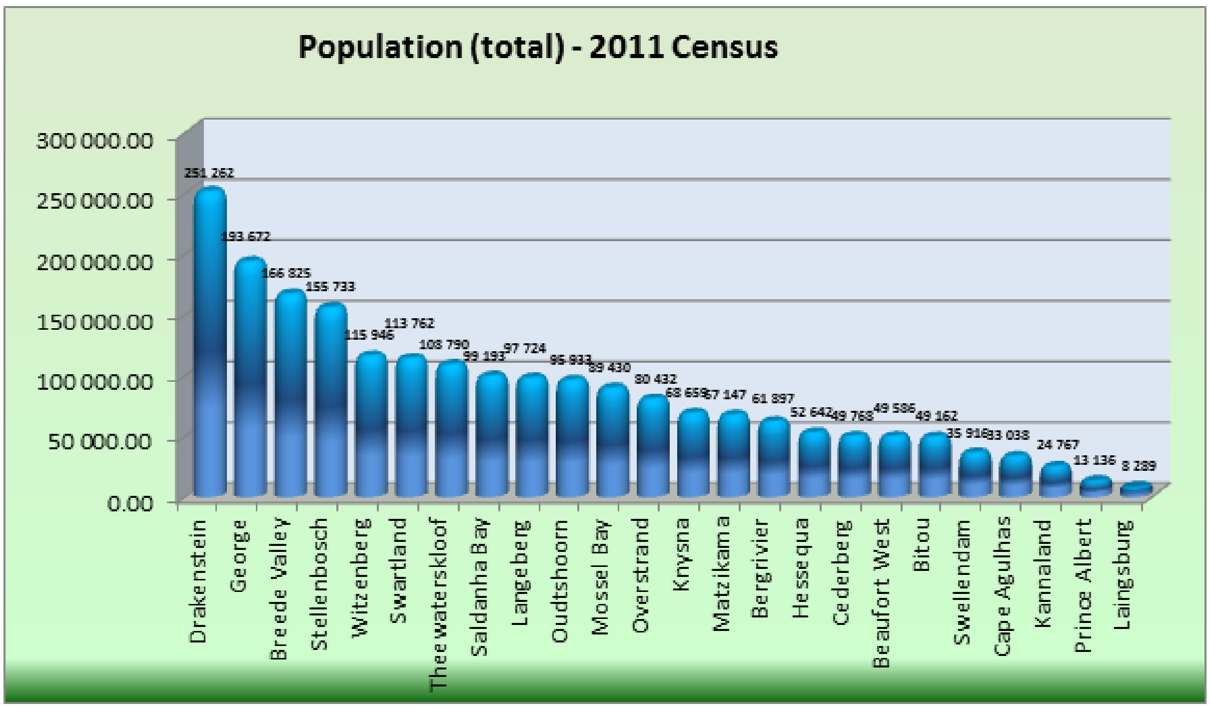
Town	Services and backlogs				
	Sewerage	Water	Storm water	Electricity	Streets
		pressure due to illegal connections and wasteful use of water.			
Kalbaskraal and Abbotsdale	▪ Water borne sewer system must be extended in Kalbaskraal	▪ Reservoir capacity in must be increased for new development s ▪ Secondary Chlorination at reservoirs must be implemented	▪ No formal piped storm water drainage system ▪ Channels are not lined causing erosion and maintenance problems	▪ Eskom area of supply ▪ Street lighting inadequate	▪ Upgrading of gravel roads
Malmesbury	▪ Sewerage connector in Wesbank in the area of Wistaria Street is under pressure and must be upgraded for further development s ▪ Obsolete infrastructure causing regular blockages ▪ Upgrading of distribution network is needed ▪ Upgrading of main connectors in Voortrekker Street from swimming pool to Bokomo Road	▪ Sections of the water reticulation network is obsolete and must be upgraded ▪ Storage capacity must be increased for further development s ▪ Secondary Chlorination at reservoirs must be implemented	▪ Maintenance to Ilinge Lethu and Wesbank system, regular blockages ▪ Channel under Voortrekker Street, from post office to Bokomo road ▪ Retention structure in river north of the swimming pool ▪ Maintenance on Diep- and Platteklip rivers ▪ Sections of the storm water drainage system are obsolete and must be upgraded	▪ Projects for the upgrading of supply capacity are in process to make provision for proposed development s ▪ Replacement of obsolete infrastructure including switchgear, mini-substations and low voltage networks	▪ Backlog of resealing program, deterioration of road infrastructure ▪ Upgrading of Bokomo / Voortrekker Road intersection ▪ Upgrading of Piketberg / Voortrekker Road intersection ▪ Upgrading of the N7/Bokomo Road interchange

3. SECTION 3: CURRENT REALITIES

3.1 Demographic information and Local Economy Reality

Swartland has a total population of 113 762 (2011 Census). This ranks the population in the municipal area at number 98 when compared to the other municipalities in South Africa. In 2001, the population in the municipal area was 72 115 (2001 Census), which ranked the municipality at number 129.

Compared to other municipalities in the Western Cape, excluding the Cape Town Metro, Swartland is ranked the 6th based on population size.



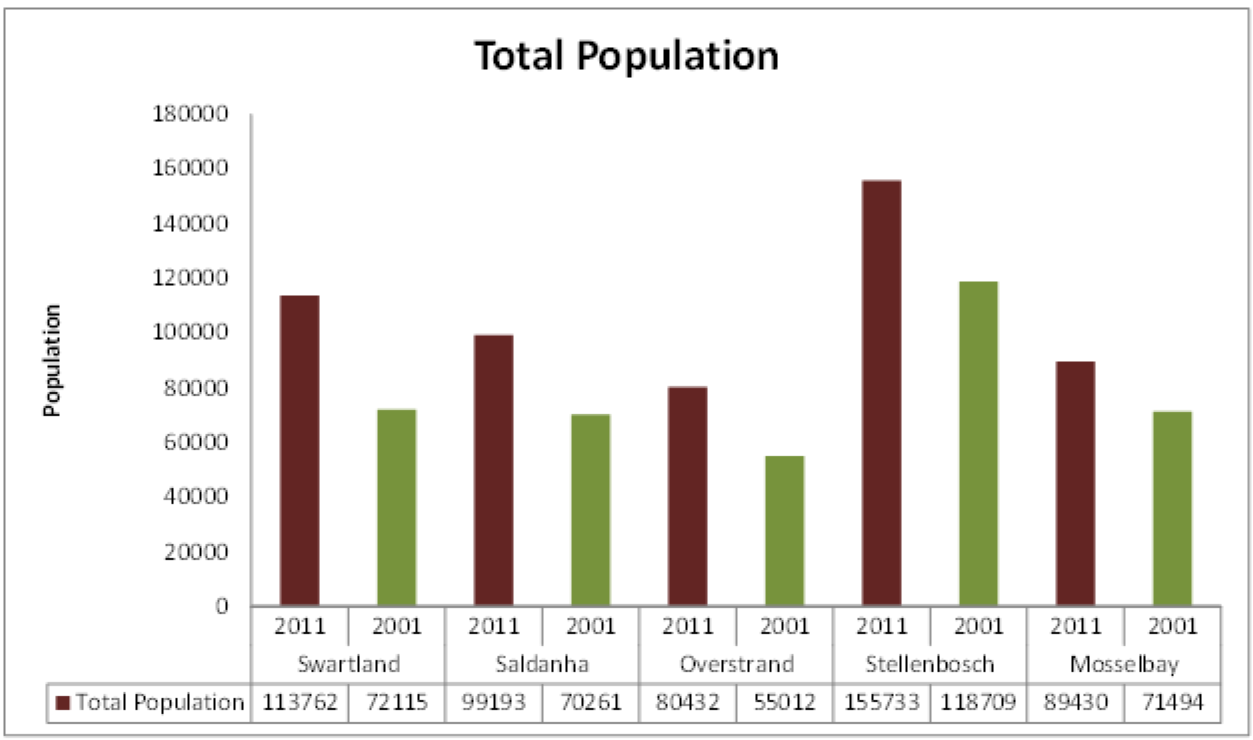
It is projected that the population will grow at an average annual rate of 1.37% for the period 2011 – 2017. The average annual rate is in line with the overall District projections pertaining to individual municipal increases for the same period.

Based on an annual increase of 1.37%, it is projected that the population numbers will increase as follows:

Year	Population
2011	113 762
2012	115 425
2013	117 072
2014	118 704
2015	120 314
2016	121 898
2017	123 452

Source: Western Cape Department of Social Development, 2014

The population growth compared to other major municipalities (for purposes of this document will be known as the “Benchmark Group” which comprises of Saldana - , Mossel Bay - , Stellenbosch and Overstrand Municipalities) in the Western Cape is as follows:



Based on relative population ranking in South Africa, the municipalities included in the Benchmark Group, all municipalities ranked higher in population statistics as follows:

	2011	2001	Change
Swartland	98	129	31
Saldanha	113	134	21
Overstrand	134	156	22
Stellenbosch	70	98	28
Mossel Bay	128	131	3

Migration constitutes a major challenge for the Swartland (and the rest of the Benchmark Group) as there is a net inflow of people to these areas. Although in- and out-migration cannot be stopped, it must still be managed with great care by the Municipality and be taken into account when compiling a long term financial plan.

The growth rate in Swartland between 2001 and 2011 were 4.56%, which equates to the fifth fastest growing municipality in the country. This growth is also higher than any other municipality in the Benchmark Group:

	Growth between 2001 and 2011	Rank
Swartland	4.56%	5
Saldanha	3.45%	10
Overstrand	3.80%	7
Stellenbosch	2.71%	23
Mossel Bay	2.24%	36

The West Coast District regional economy generated 4.4% of the Western Cape GDPR during 2013, i.e. R19 billion of the total R431 billion. The West Coast District economy grew by 3.3% per annum from 2000 to 2011. The Swartland economy grew at slightly higher rate of 3.7%. Swartland is ranked the 10th non-metro municipality according to growth and size in the Province, with Stellenbosch, Mossel Bay and Drakenstein claiming the top three positions respectively. Its percentage contribution to real GDPR growth and size is 3.7%. **It is therefore obvious that the population growth, and through that the demand on services, exceeds the economic growth.**

In 2013, Swartland's GDP was R3.3 billion, which is R28 307 per capita. The income per capita is currently a concern, as it is still below the 2009 level per the National Development Plan that amounts to R 50 000.

Top ten GDPR contributors in the Western Cape - 2014

Sector	%
Stellenbosch	17.1
Mossel Bay	13.0
Drakenstein	8.9
George	8.1
Overstrand	5.7
Saldanha Bay	5.4
Langeberg	5.3
Knysna	4.8
Bitou	4.4
Swartland	3.7

Source: Quantec Research 2014 (MERO 2014)

The largest contributing sectors to GDPR within Swartland Municipality are Finance, Insurance, Real Estate and Business Services (33.7%) followed by manufacturing (21.1%). The smallest contributing sector is Mining and quarrying.

GDPR contribution per sector: Swartland - 2011

Sector	%
Finance, insurance; real estate and business services	33.7
Manufacturing	21.1
Agriculture, forestry and fishing	14.3
Wholesale and retail trade, catering and accommodation	11.0
General government	5.5
Transport, storage and communication	4.9
Construction	4.8
Community, social and personal services	2.8
Electricity, gas and water	1.9
Mining and quarrying	0.0
Total	**100.0**

Source: Quantec Research

Swartland's economic growth over the period 2010 - 2013 was sustained by the Finance, insurance, real estate and business sector, which expanded the most rapidly after the recession, growing by 5%, 3.5% and 3.9% per annum respectively over the period. It is to be expected that some of the labour becoming redundant in the primary and secondary sectors were absorbed in these growing services industries. The manufacturing industry of Swartland expanded, also posting more meaningful recovery growth rates of 2.8% and 2.4% respectively over the period 2010 - 2013. Regarding agricultural production, Swartland, known for its grain fields and animal farming, made the largest contribution in 2013, i.e. close to 30%.

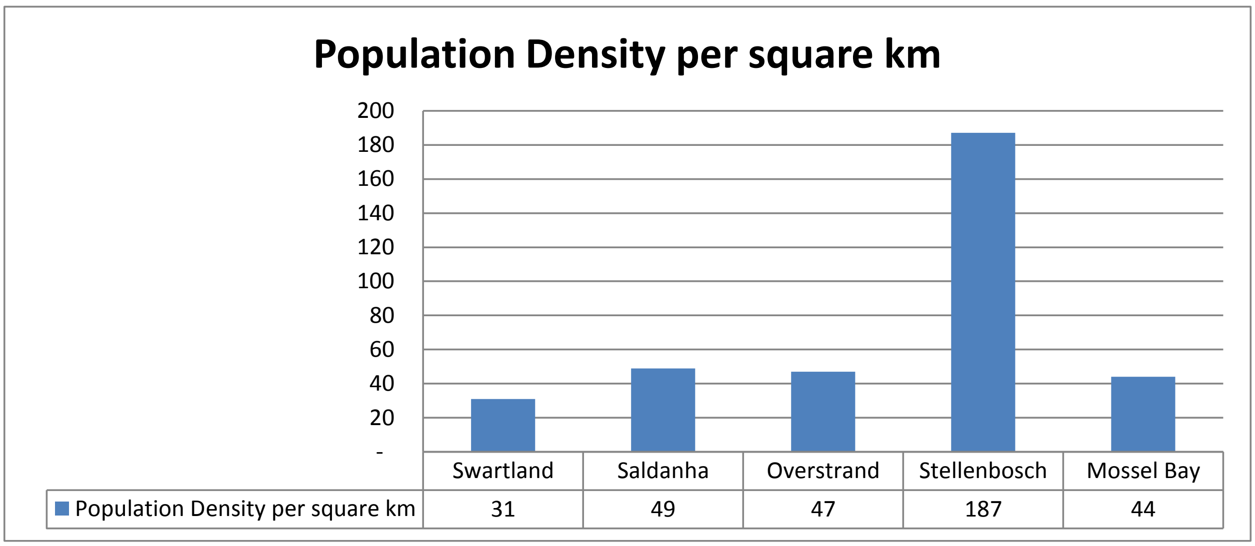
In contrast to the surrounding municipalities across the West Coast District, Swartland has displayed resilient economic growth through some trying market conditions both locally and abroad.

Swartland sectoral growth, 2000-2013

Trend	2000-2013
Agricultural	0.3%
Manufacturing	2.0%
Services	5.2%

Source: Quantec Research 2014 (MERO 2014)

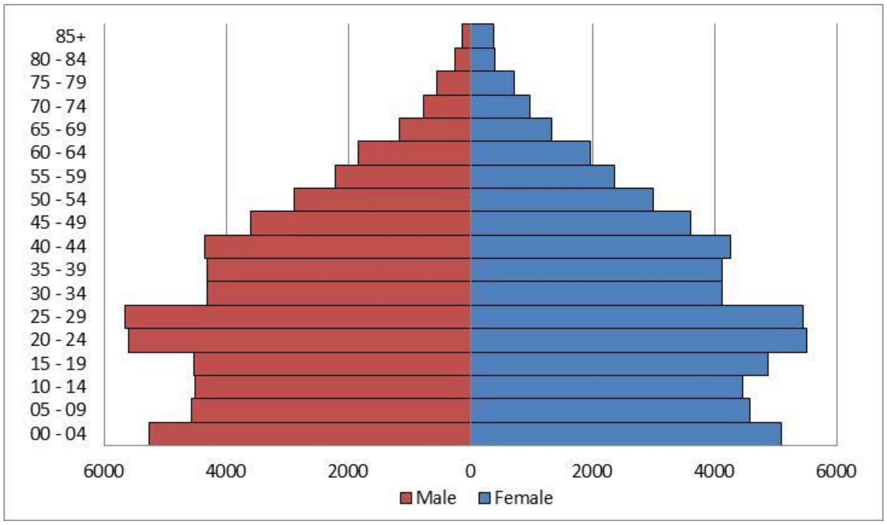
There are approximately 31 people per square kilometer. Compared to the Benchmark Group, the population is the least dense:

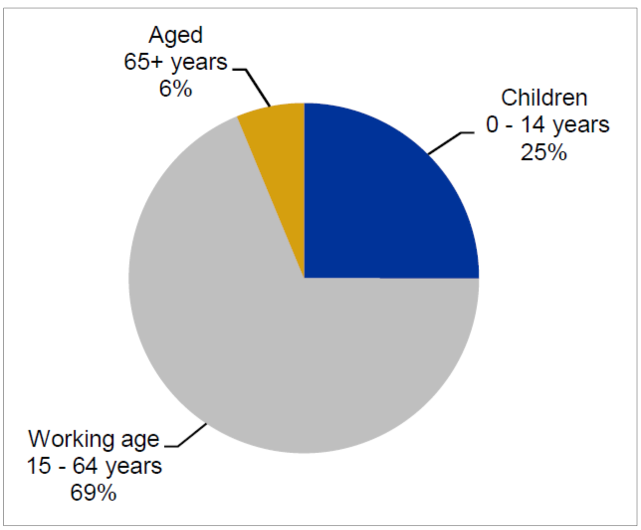


There are 29 324 households in the municipal area with an average household size of 3.5 persons per household.

The population can be classified into three main groups namely the children (0 - 14 years); the working age population (15 - 64 years) and persons aged 65 years and older. In 2011 and 2014 the Municipality's population composition was as follows: children at 25%, working age population at 69% and persons aged 65 and older at 6% of the total population.

2011 Age Distribution 2014





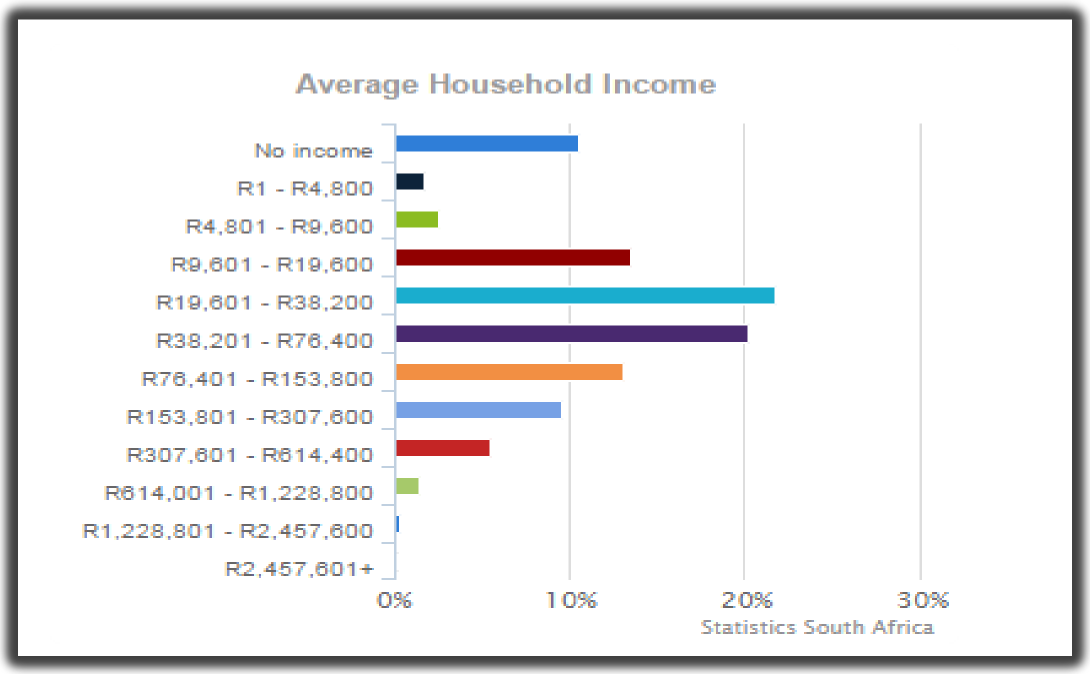
Source: *WC Department of Social Development, 2014*

A total of 40 651 people are economically active (employed or unemployed but looking for work), and of these, 12.7% are unemployed. The economically active youth (15–34 years) in the area total 18 248, of which 17.9% are unemployed.

Employment statistics are as follows:

Employment Status	Number
Employed	40651
Unemployed	5928
Discouraged Work Seeker	1197
Not Economically Active	30854

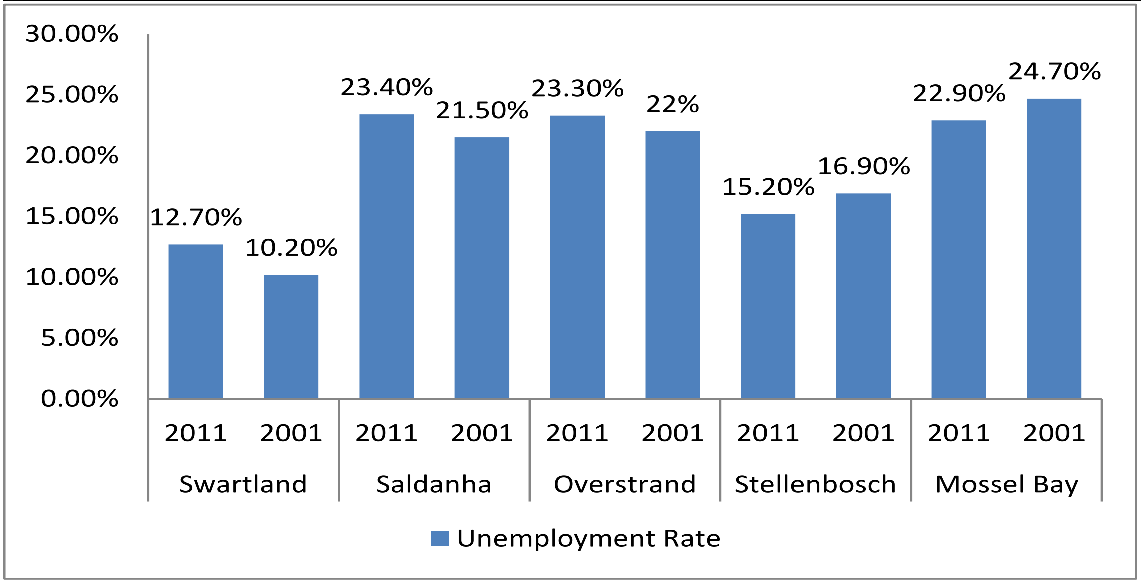
Distribution of income per annum:



Distribution of income per annum (expressed as a percentage):

Income	Percentage
None income	10,5%
R1 - R4,800	1,7%
R4,801 - R9,600	2,6%
R9,601 - R19,600	13,4%
R19,601 - R38,200	21,7%
R38,201 - R76,4000	20,1%
R76,401 - R153,800	13%
R153,801 - R307,600	9,5%
R307,601 - R614,400	5,5%
R614,001 - R1,228,800	1,5%
R1,228,801 - R2,457,600	0,4%
R2,457,601+	0,2%

The unemployment rate, although still a concerning factor, compares favorably to the Benchmark Group.



The municipality is also rank in the top 10 municipalities in the country when it comes to the lowest unemployment rate.

3.2 Indigent Households and Infrastructure backlogs

There are 29 324 households in the municipal area. Of these households, 80.6% have access to piped water inside their dwelling, and 16.9% have access to water in their yard. Only 0.5% of households do not have access to piped water with the remaining households sharing communal taps. 97.8% of households have access to electricity.

Swartland Municipality is ranked the top municipality in the country based on households having access to electricity and 5th based on access to piped water. However based on sewerage (Flush toilet connected to sewerage) and refuse (Weekly refuse removal) statistics there are still room for improvement, as the municipality is ranked 35th and 47th respectively in these categories.

In January 2015 the following figures applied to indigent households' access to free basic services:

	January 2015
• Number of indigent households:	7 915
• Number with access to free basic water:	7 915
• Kilolitres per household free:	10
• Number with access to free basic electricity:	7 096
• Number provided by ESKOM:	1 717
• KwH per household free:	50
• Number with access to free basic sanitation:	7 632
• Number with access to free basic refuse removal:	7 835

Every year indigents need to apply for indigent support. Indigents are growing significantly in numbers. Not only is this increase attributed to the influx of people to the municipal area, it is also the result of a change in indigent policy that is more inclusive. This obviously requires additional financial resources for service delivery without a corresponding revenue increase.

For budgeting purposes, the municipality anticipates that indigents will grow in line with the population growth over the period from 2011 to 2017 which is stated at 1.37%.

Housing remains a challenge, not only for Swartland, but for the entire country. The municipality is currently faced with the following shortfall/backlog in housing development:

Town	Waiting list	Number of Units to be constructed	Backlog	Financial year (construction)
Moorreesburg	1492	500	992	2018/2019
Koringberg	231	0	231	N/A
Riebeek-Wes	1024	300	724	2015/2016 to 2017/2018
Riebeek Kasteel	1260	0	1260	N/A
Darling	1926	75	1851	2016/2017
Yzerfontein	7	0	7	N/A
Riverlands	182	15	167	2015/2016
Chatsworth	673	100	573	2014/2015
Chatsworth (GAP)	24	12	12	2015/2016
Abbotsdale	1404	182	1222	2014/2015
Abbotsdale (GAP)	71	56	15	2014/2015
Kalbaskraal	366	94	272	2017/2018
Malmesbury (IRDP)	3173	1000	2173	2016/2017 to 2018/2019
Malmesbury (FLISP)	504	158	346	2014/2015 to 2016/2017
Woonstelle	272	152	120	2013/2014 to 2015/2016
Phola Park	1552	245	1307	2013/2014 to 2016/2017
TOTAL	**14161**	**2889**	**11272**	

From the above it is clear that the municipality, at current population levels, requires funding for an additional 11 272 dwellings after the projected additions until 2018/2019 have been taken into account. However, this does not include the expected population growth which in turn will increase this requirement significantly. The municipality is already under pressure to provide bulk services. Housing additions of this magnitude will increase this pressure on infrastructure development. Due to the high cost of infrastructure development, as well as the related maintenance cost, severe demands will be placed on the financial resources of the municipality.

4. SECTION 4: FINANCIAL OVERVIEW: REVENUE MANAGEMENT

Swartland derives approximately 85% to 90% of revenue (excluding conditional capital and operating grants) from the following sources:

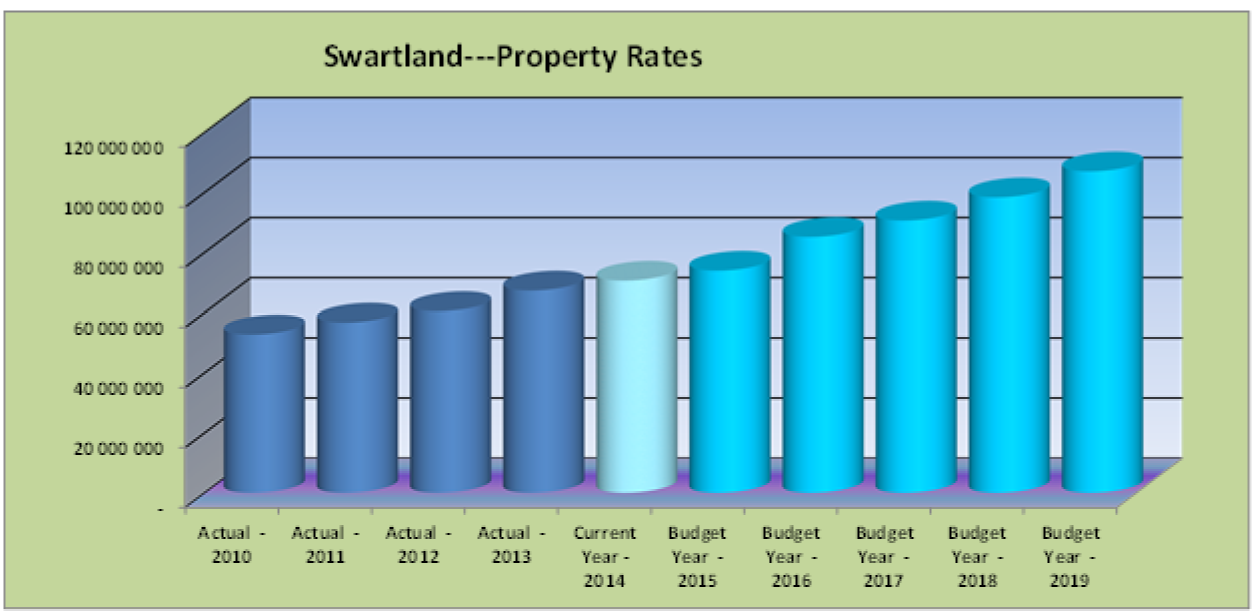
1) Property Rates
2) Service Charges
3) Unconditional Grant Funding (Equitable Share)
4) Fines

Total revenue (excluding conditional capital and operating grants) amounted to R 425.138 million in 2013/2014 and is projected to grow to R 601.646 million in 2018/2019.

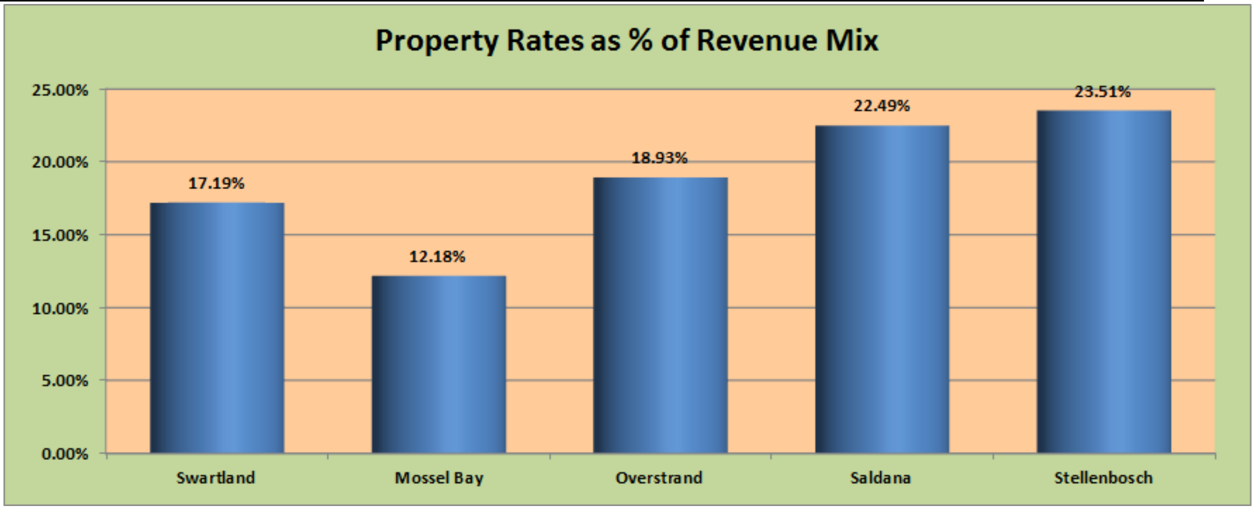
Main revenue streams will be analysed in more detail below.

4.1 Property Rates

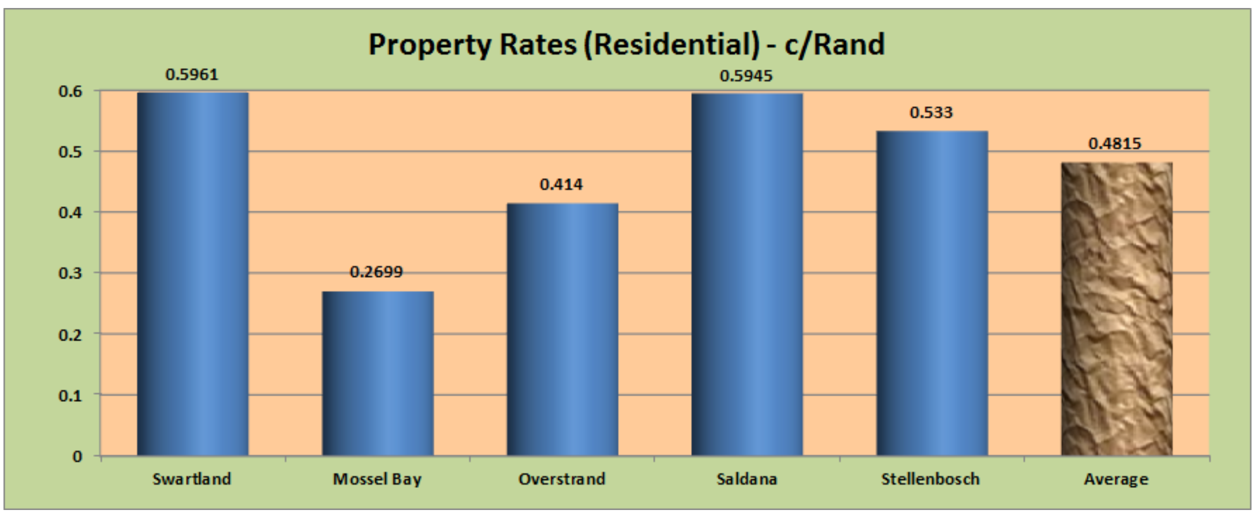
During 2013/2014, property rates accounted for 16.6% of the revenue mix of Swartland Municipality. This percentage is set to increase to 17.8% by 2018/2019. Translated into Rand, the revenue derived from property rates will increase from R 70.551 million in 2013/2014 to R 106.971 million in 2018/2019. This increase amounts to an average annual increase of 8.68% over the 5 year period as indicated below:

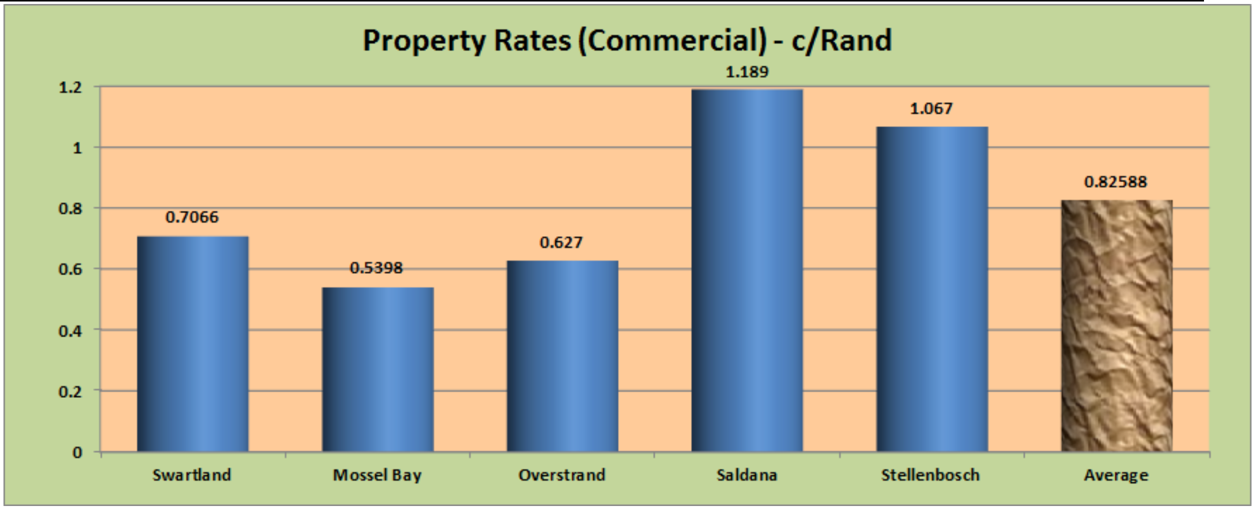


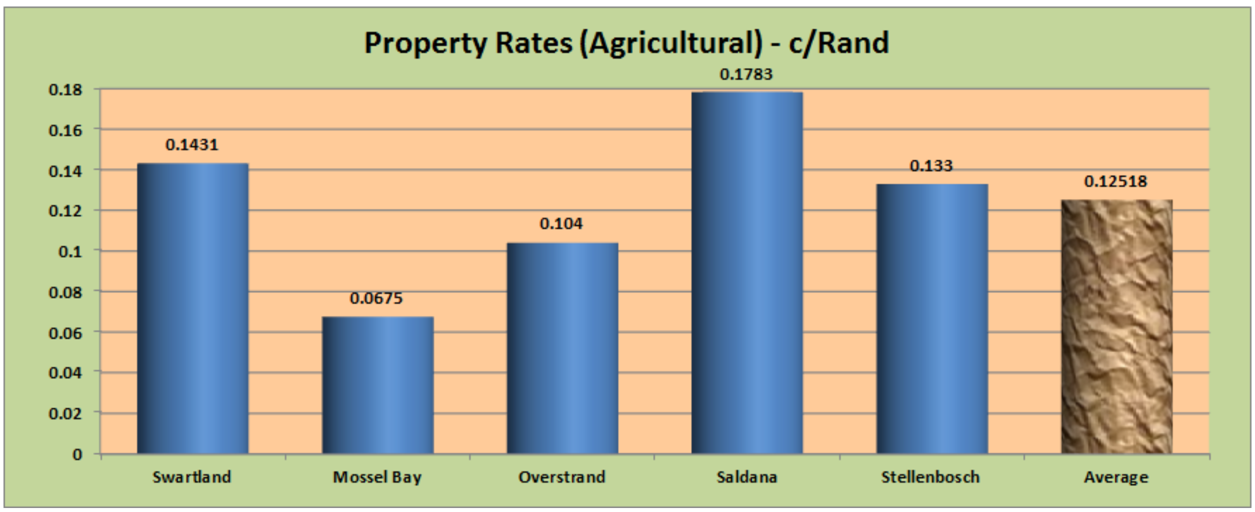
Comparing property rates to the Benchmark Group, only Mossel Bay Municipality is less dependent on property rates to fund the total budget:



When the Benchmark Group is compared based on the tariffs charged (2014/2015) for the 3 main categories of properties (Residential, Commercial and Agricultural), the results are as follows:





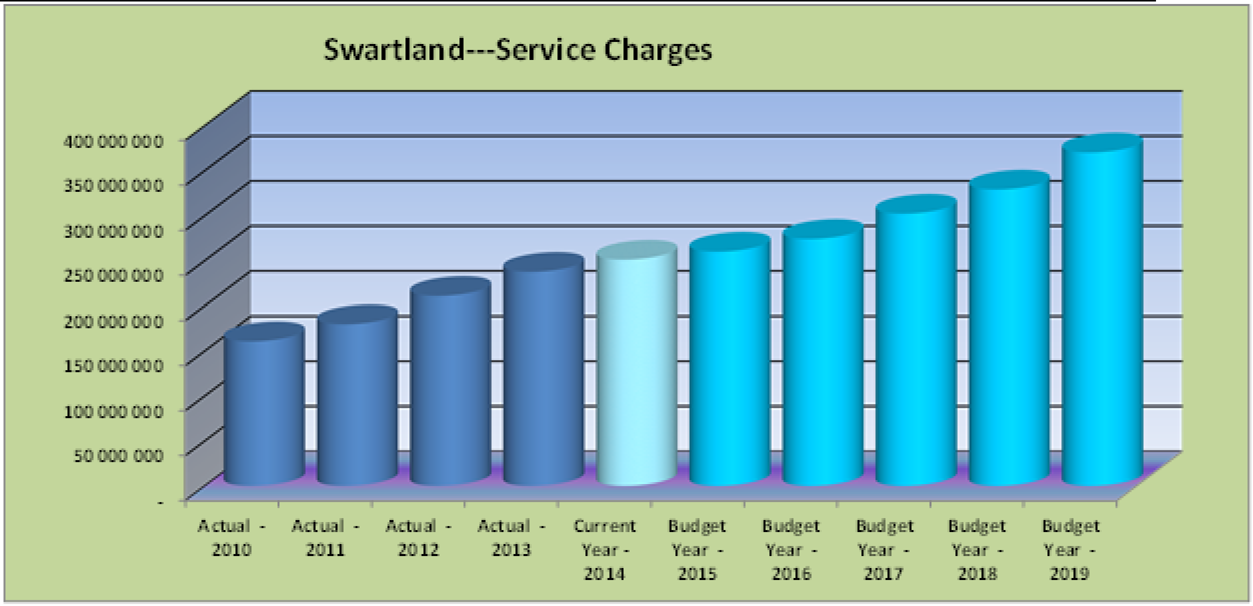


Residential rates are already the highest in the Benchmark Group, while agricultural rates are above the average for the group. Any room for further increases in these categories is very limited. Commercial tariffs are still below the average for the group, however, any increases in this category should be carefully considered as excessive increases might counter GDP Growth in the municipal area.

The plan does not take into account any proposed adjustments in the Property Rates Act.

4.2 Service Charges

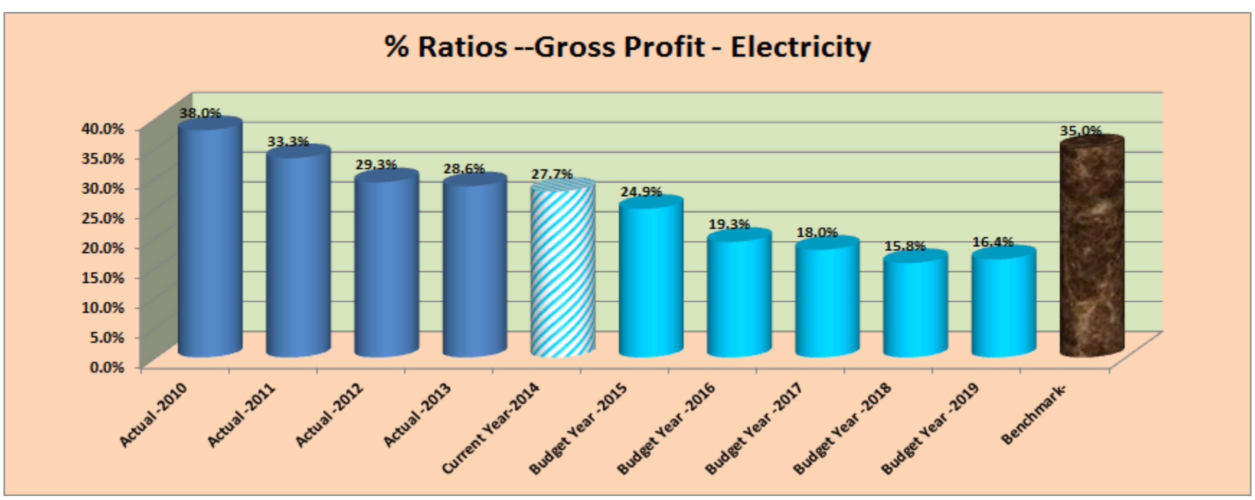
Service charges are made up of Electricity-, Water-, Sewerage- and Refuse Revenue and accounted for R 250.967 million (or 59.03%) of the total revenue mix in 2013/2014. It is projected that Service charges will increase at an average annual rate of 8% to R 370.116 million in 2018/2019. In 2018/2019, Service charges will represent 61.5% of the total revenue mix.



4.2.1 Service Charges – Electricity

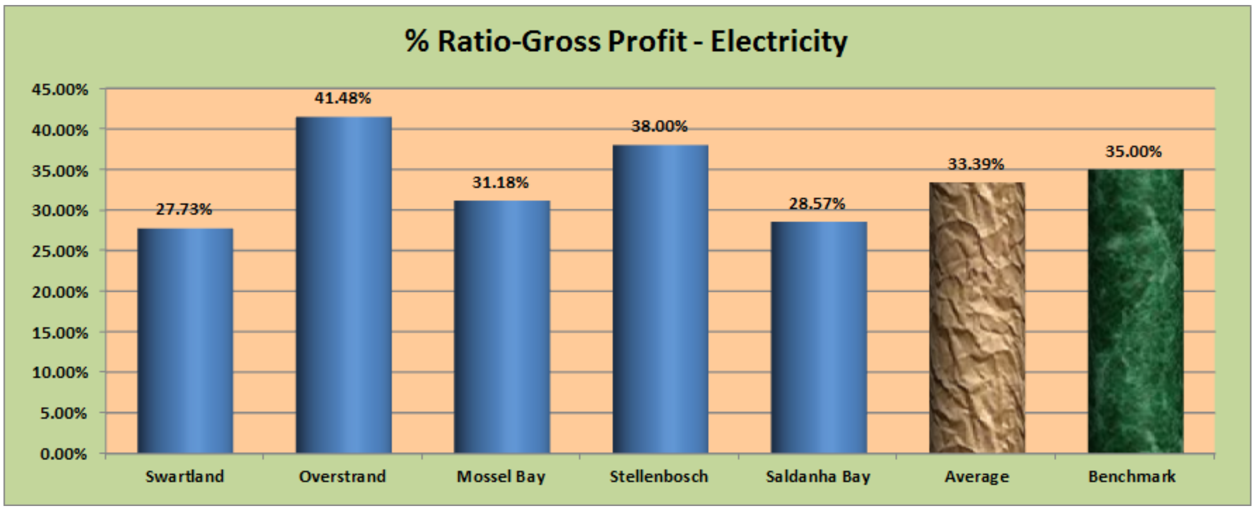
Electricity Service charges contribute approximately 40% to 45% of the revenue mix of Swartland Municipality.

Electricity service charges have historically been a “profit making” service for most municipalities. Surpluses generated in distributing electricity is utilised to cross-subsidise other functions of the municipality where services are unable to be cost reflective. For this reason, it is very important to ensure the margins derived on Electricity services are maintained at a certain level. However, due to sharp increases in bulk service charges (Refer to Section 5), combined with the inability of the municipality to transfer all cost increases to the consumer, electricity margins came under pressure as illustrated below:



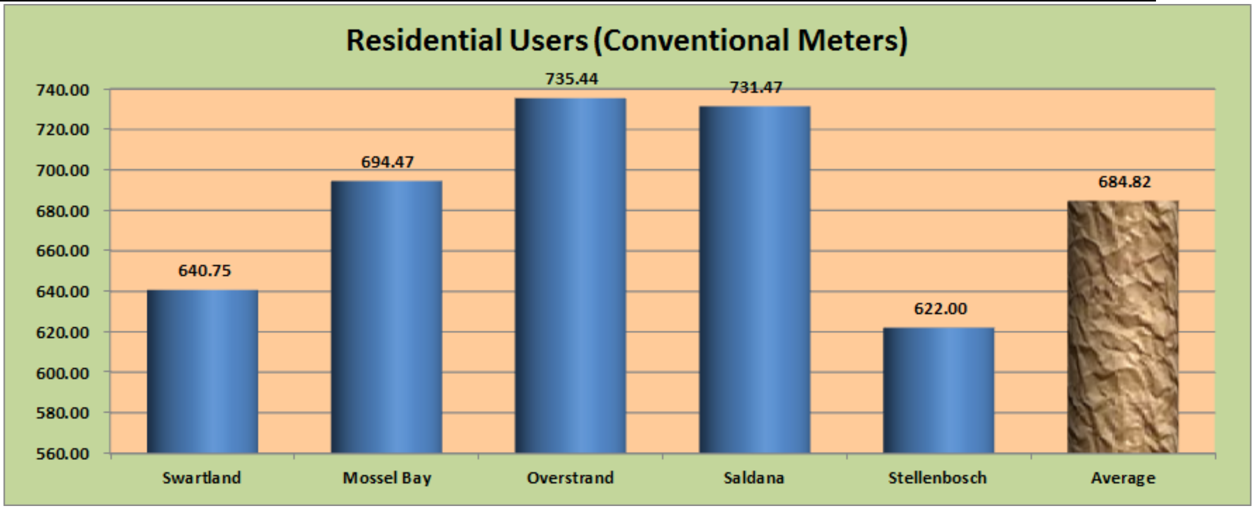
Bulk Electricity charges are projected to increase at an annual average rate of 12.29% over the period 2013/2014 to 2018/2019, whilst electricity service charges are only expected to increase by 9.07% over the same period.

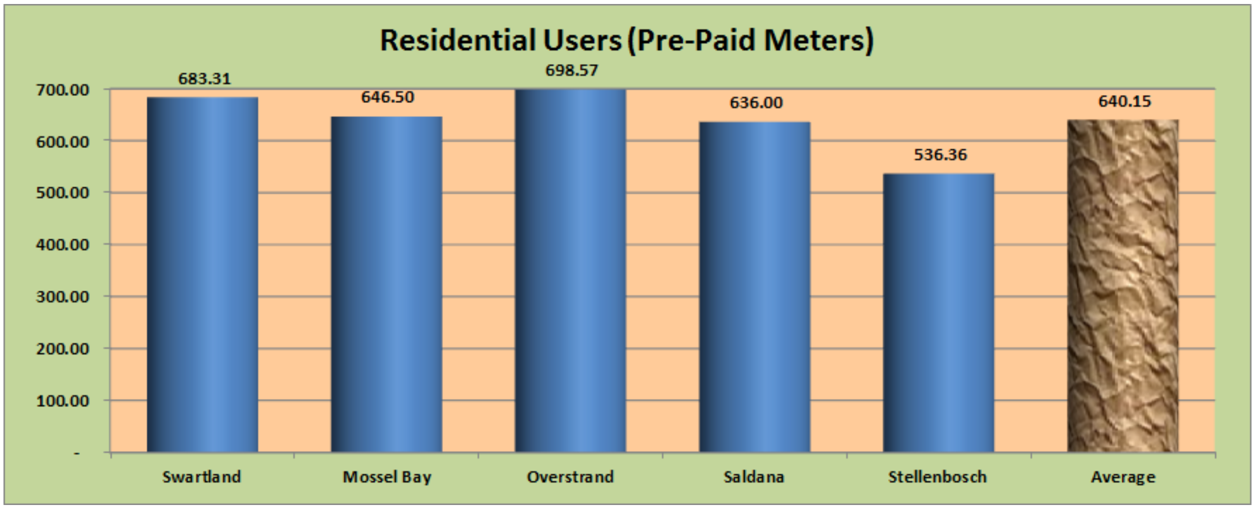
Compared to the Benchmark Group, Swartland Municipality is the worst performer based on Gross Profit % (2013/2014):

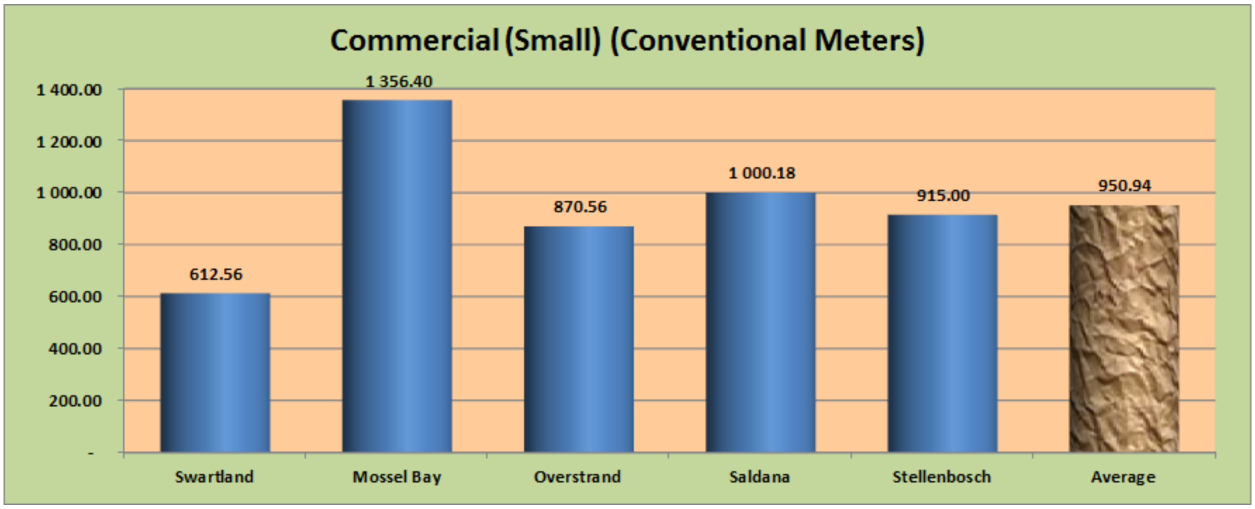


Based on a selection of tariffs applicable to electricity, compared to the Benchmark Group, Swartland Municipality is below the average in all of the indicators below. The benchmarks below compare the users in 3 categories consuming 500 kWh per month (meters up to 60 Ampere):

- Residential Users (Conventional Meters)
- Residential Users (Pre-Paid Meters)
- Small Commercial Users (Conventional Meters)


Residential Users (Conventional Meters)
740.00
720.00
700.00
680.00
660.00
640.00
620.00
600.00
580.00
560.00
640.75
694.47
735.44
731.47
622.00
684.82
Swartland
Mossel Bay
Overstrand
Saldana
Stellenbosch
Average


Residential Users (Pre-Paid Meters)
700.00
600.00
500.00
400.00
300.00
200.00
100.00
-
683.31
646.50
698.57
636.00
536.36
640.15
Swartland
Mossel Bay
Overstrand
Saldana
Stellenbosch
Average


Commercial (Small) (Conventional Meters)
1 400.00
1 200.00
1 000.00
800.00
600.00
400.00
200.00
-
612.56
1 356.40
870.56
1 000.18
915.00
950.94
Swartland
Mossel Bay
Overstrand
Saldana
Stellenbosch
Average

The 3 indicators above were specifically selected due to the fact that it represents the low- to middle income group. Also, small commercial ventures are at the heart of economic growth in any municipal area, with the national budget also making a significant allocation to the development of small businesses.

Availability charges, stated R 135.72 per month for 2014/2015 is relatively in line with the Benchmark Group, with only the exception of Overstrand Municipality being significantly higher at R 204.56 per month.

Significant pressure on the gross profit percentage due to the increase in costs of the bulk service, combined with relatively lower consumption charges, will result in a significant decline in the profitability of the service over the period from 2013/2014 to 2018/2019 as indicated below:

Standard Classification Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework			Outer years	
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Revenue - Electricity	149 874	166 855	175 968	191 178	191 178	204 193	224 858	245 211	271 641	301 021
Expenditure - Electricity	133 181	146 557	154 305	175 831	176 397	197 274	218 062	241 071	262 772	286 462
Net Surplus/(Deficit)	16 693	20 298	21 663	15 346	14 781	6 920	6 796	4 140	8 869	14 559
Net Surplus/(Deficit) %	11.14%	12.16%	12.31%	8.03%	7.73%	3.39%	3.02%	1.69%	3.26%	4.84%

Swartland Municipality must cut back on costs or alternatively review the entire current tariff structure to ensure that the service remains profitable at acceptable levels.

4.2.2 Service Charges – Water

Water Service Charges constitutes approximately 8% of the revenue mix of the Swartland Municipality. Although this represents a relatively low portion of the revenue mix, the water service remains a major issue for the municipality as the service is currently operated at a loss as indicated below:

Standard Classification Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework			Outer years	
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Revenue - Water	32 400	35 164	36 465	39 418	39 418	38 825	44 182	50 299	57 270	65 221
Expenditure - Water	38 947	41 814	42 881	46 278	46 596	56 930	61 364	67 043	73 397	80 297
Net Surplus/(Deficit)	(6 547)	(6 649)	(6 416)	(6 860)	(7 178)	(18 105)	(17 183)	(16 744)	(16 127)	(15 077)
Net Surplus/(Deficit) %	-20.21%	-18.91%	-17.59%	-17.40%	-18.21%	-46.63%	-38.89%	-33.29%	-28.16%	-23.12%

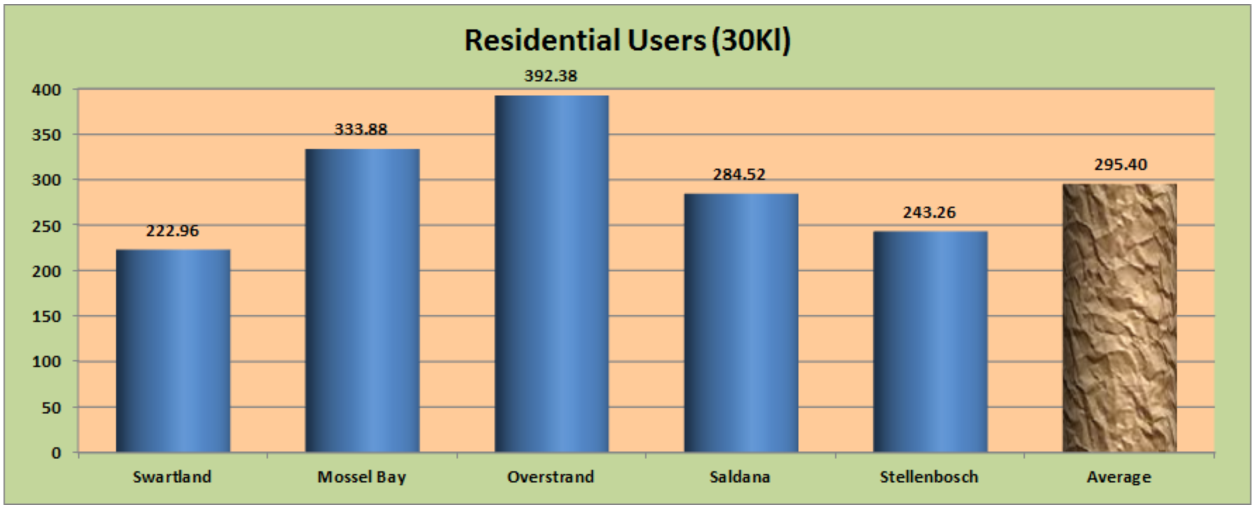
Water tariffs are currently not cost reflective and the municipality must adjust the tariff structure, also in accordance with the National Treasury requirements, to counter the imbalance identified above. Structure adjustments should include using consumption blocks with smaller

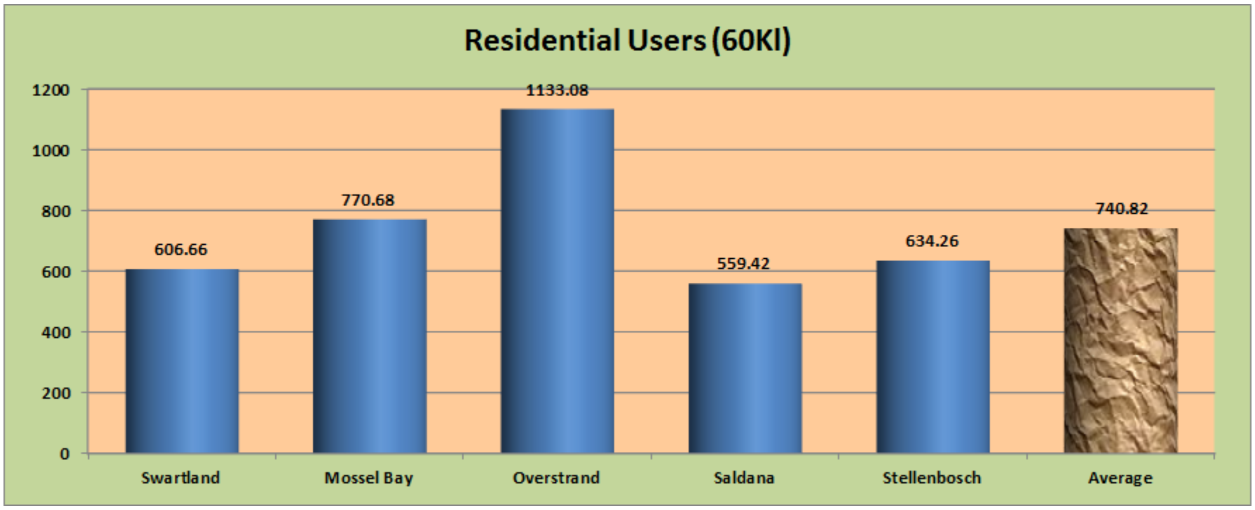
intervals. Tariffs may reward consumers using water sparingly, whilst charging higher tariffs for higher consumers.

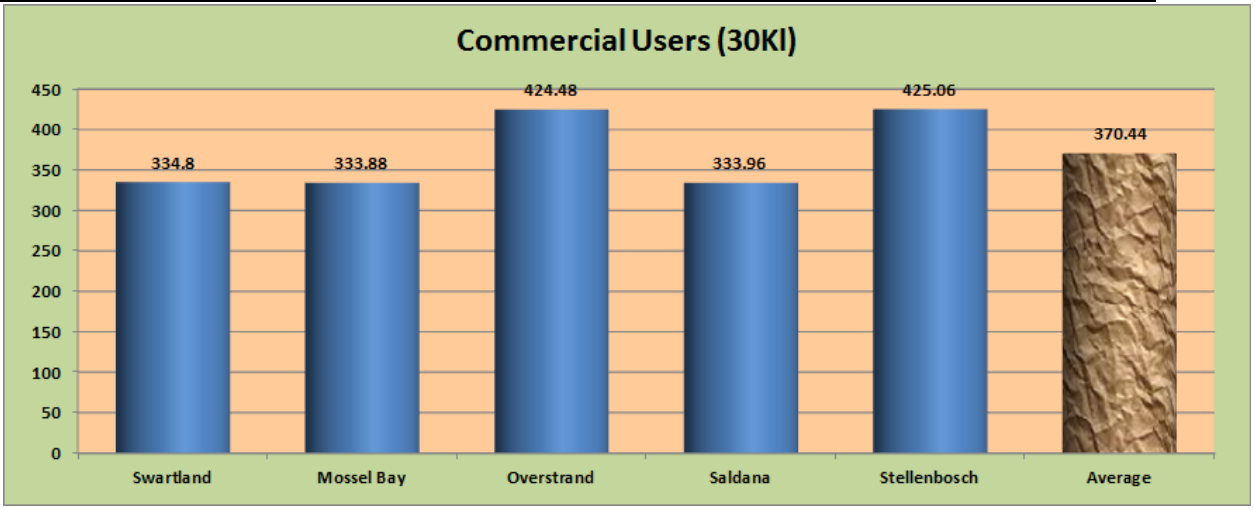
Currently no basic charge per month is levied for water and a policy change to cater for such in order to cover the fixed costs component must be introduced.

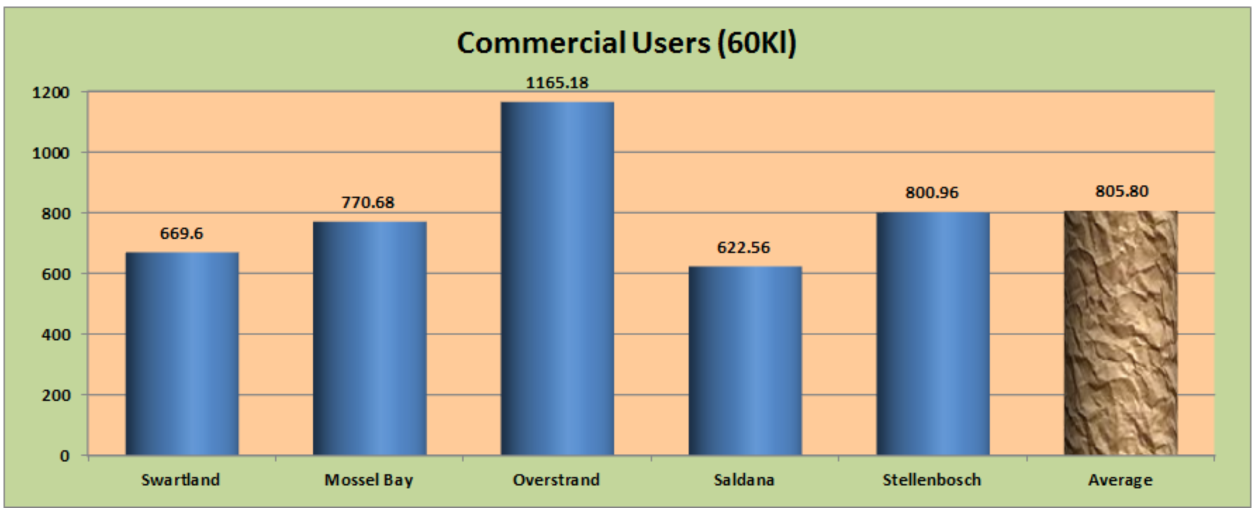
Further cost cutting measures must be introduced in order for the service to become economical.

To compare the current tariff structure to that of the Benchmark Group, consumption levels, using 30kl and 60kl, will be used as basis (2014/2015). The results are as follows:



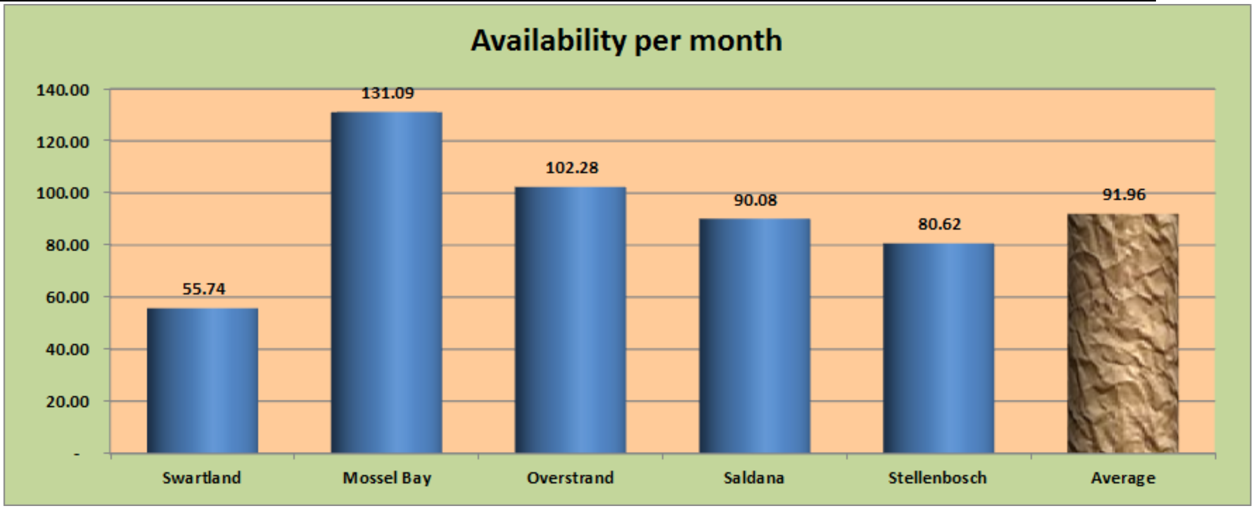






In all scenarios above, Swartland Municipality is below the average for the Benchmark Group. In all cases, Swartland Municipality is significantly lower than Mossel Bay and Overstand, mainly due the setup of the respective tariff structures where the latter municipalities charge increasingly higher tariffs as consumption increases above certain levels.

To further compound the issue, the availability charges levied by Swartland Municipality is significantly lower than the other municipalities in the Benchmark Group.



As mentioned before, Swartland does not charge a basic fee per month.

An immediate review of the water service cost- and tariff structures is required. Even though an average annual increase of 9% in Water Service Charges is factored into the operational budget of Swartland Municipality, the annual increases will not be sufficient to ensure that the service is self- sustainable.

4.2.3 Service Charges – Sanitation

Sanitation Service Charges contributes approximately 5% to the revenue mix of the Swartland Municipality.

The service is currently operating on a significant surplus and the projected figures over the next five years indicate that the municipality will only improve on current levels.

Standard Classification Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework			Outer years	
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Revenue - Sanitation	31 055	34 804	39 662	41 481	41 481	45 434	50 457	56 664	63 560	71 278
Expenditure - Sanitation	19 892	24 835	31 964	37 507	37 574	40 033	40 744	41 505	42 240	43 518
Net Surplus/(Deficit)	11 163	9 969	7 697	3 974	3 908	5 401	9 714	15 158	21 320	27 760
Net Surplus/(Deficit) %	35.95%	28.64%	19.41%	9.58%	9.42%	11.89%	19.25%	26.75%	33.54%	38.95%

Service charges are set to increase by an annual average rate of 4.53% over the period 2013/2014 to 2018/2019. This increase is considered to be both reasonable (as it is in line with current inflation levels) and adequate, as the increase in profitability of the service can make a significant contribution to the current backlog (as well as required future developments) in sewerage infrastructure. It was estimated in 2011 that only 77.3% of flush toilets were connected to a sewerage network.

4.2.4 Service Charges – Refuse

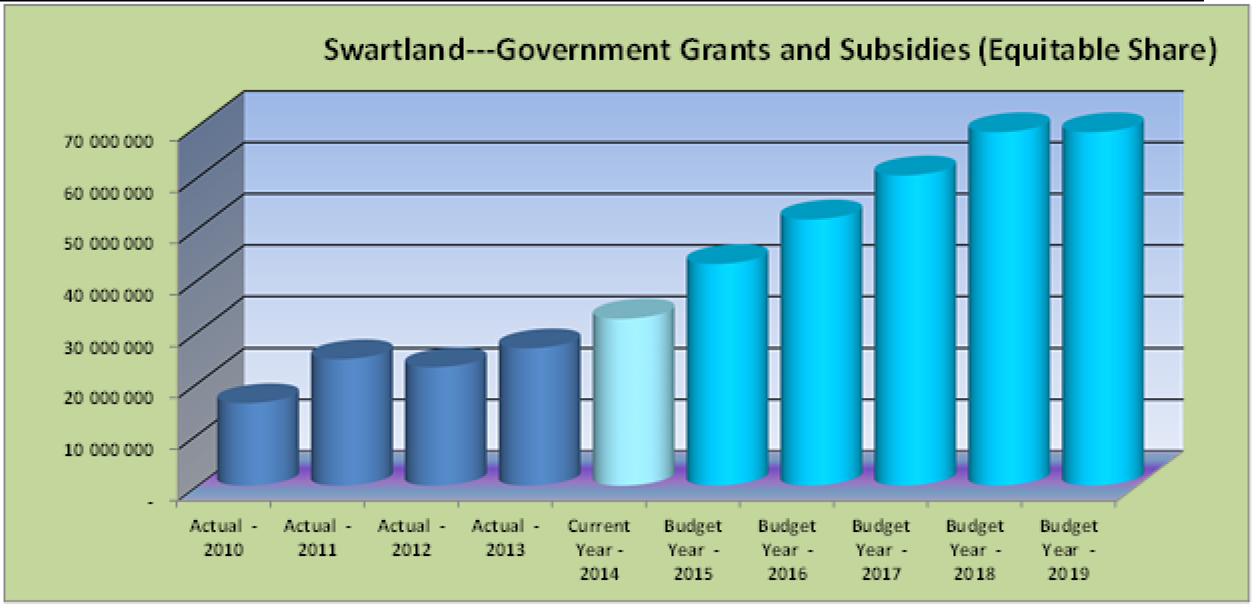
The refuse service is the smallest contributor to the revenue mix, contributing on average only 3.75%. The service is projected to remain profitable for the foreseeable future.

Standard Classification Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework			Outer years	
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Revenue - Refuse	21 512	25 682	27 270	28 591	28 591	30 386	32 763	35 243	37 877	40 714
Expenditure - Refuse	19 084	21 810	22 667	26 963	27 028	27 957	29 255	31 500	33 498	35 565
Net Surplus/(Deficit)	2 429	3 872	4 603	1 629	1 564	2 429	3 509	3 743	4 379	5 149
Net Surplus/(Deficit) %	11.29%	15.08%	16.88%	5.70%	5.47%	7.99%	10.71%	10.62%	11.56%	12.65%

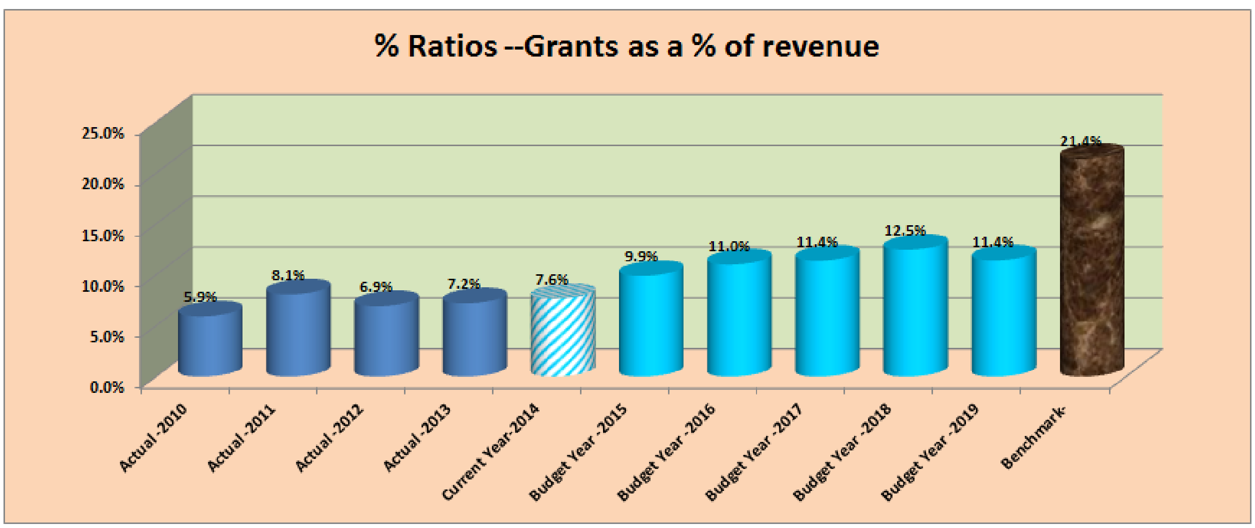
Currently the municipality has not provided for any provision relating to the rehabilitation of landfill sites in the municipality area. Landfill sites can attract significant rehabilitation costs in term of the Environmental Conservation Act. If these costs are not factored into the service charges levied to consumers, the result could negatively impact on the profitability as a whole.

4.3 Unconditional Grant Funding (Equitable Share)

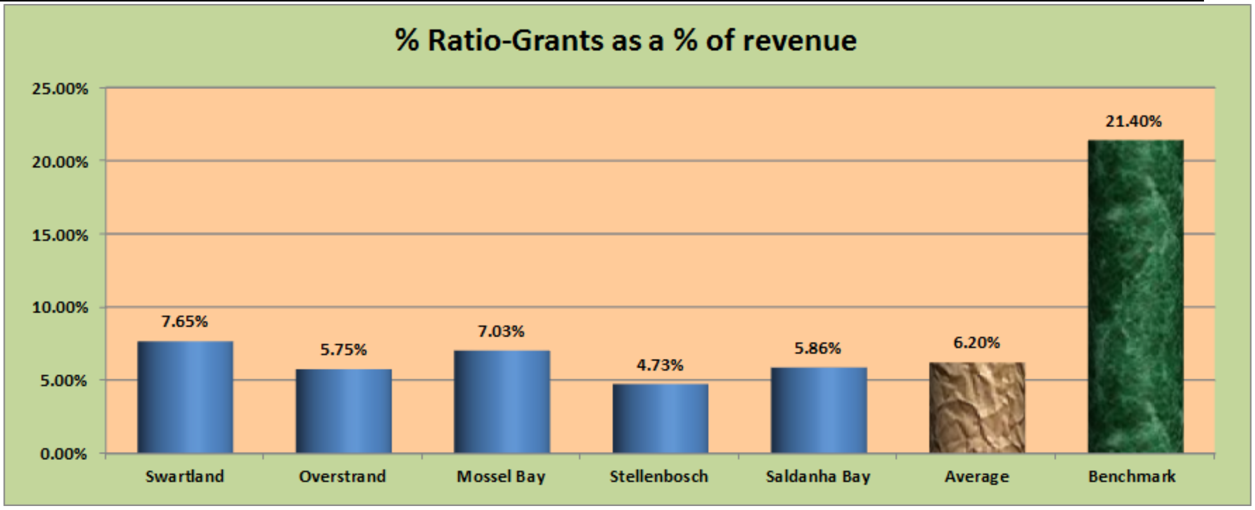
The Equitable share allocation is set to increase at an average rate of 20.6% over the next four years, before it is expected to flatten off. This significant growth is aligned to the significant growth in the population experienced over the recent years.



With a strong revenue base, the dependence on grant funding to balance the budget has always been very low when compared to the benchmark set in the Western Cape:

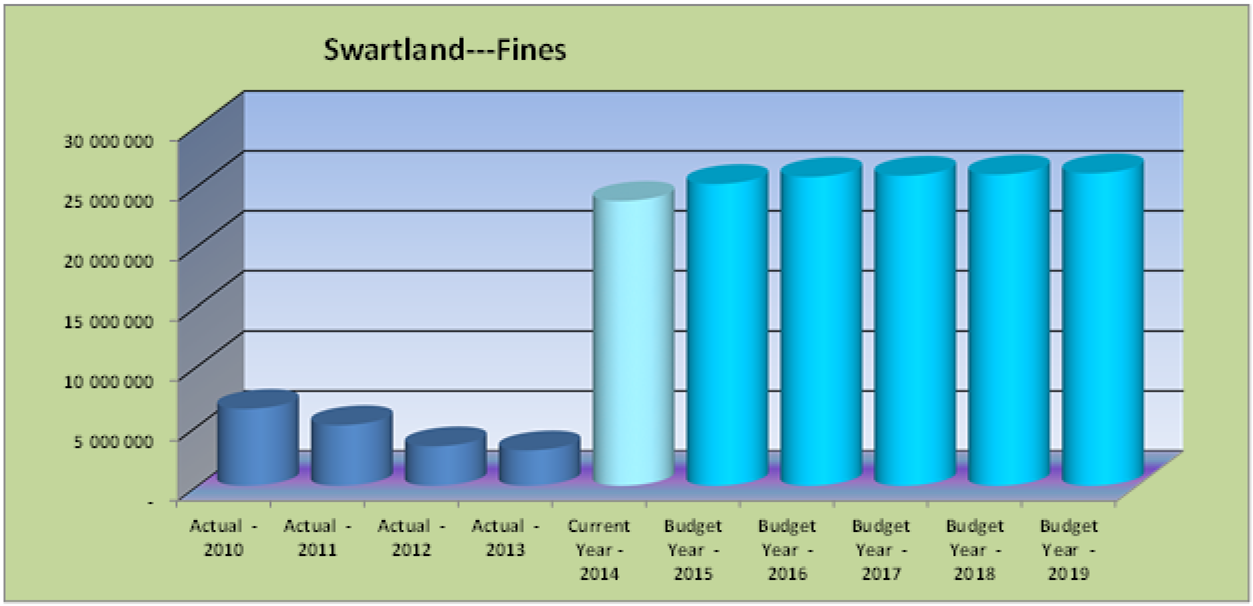


This trend is also in line with the other municipalities in the Benchmark Group (2014/2015)



4.4 Fines

Fines revenue went through relatively unnoticed on most Statements of Financial Performance in South Africa up to 30 June 2013. During 2012 and 2013, fines revenue accounted for less than 1% of the total revenue mix of Swartland Municipality. This low percentage could mainly be attributed to the accounting treatment of fines before the introduction of the revised iGRAP on 1 July 2013. Up to this date, fines revenue was predominantly accounted for on a cash basis. With the revisions of iGRAP 1, fines revenue is currently accounted for on the accrual basis, implying that fine revenue should be recognized irrespective whether it is collected or not (also note that the municipality now provides for the uncollectable portion of fines under debt impairment). On average, fines now contribute approximately 5% towards the revenue mix of Swartland Municipality. Although it is recognised that fines revenue does not necessarily translate into cash, the graph below, and specifically the significant jump in revenue between 2012/2013 and 2013/2014, should remind all Councils of the potential cash that can be generated when improving collection procedures specifically targeted at fines.

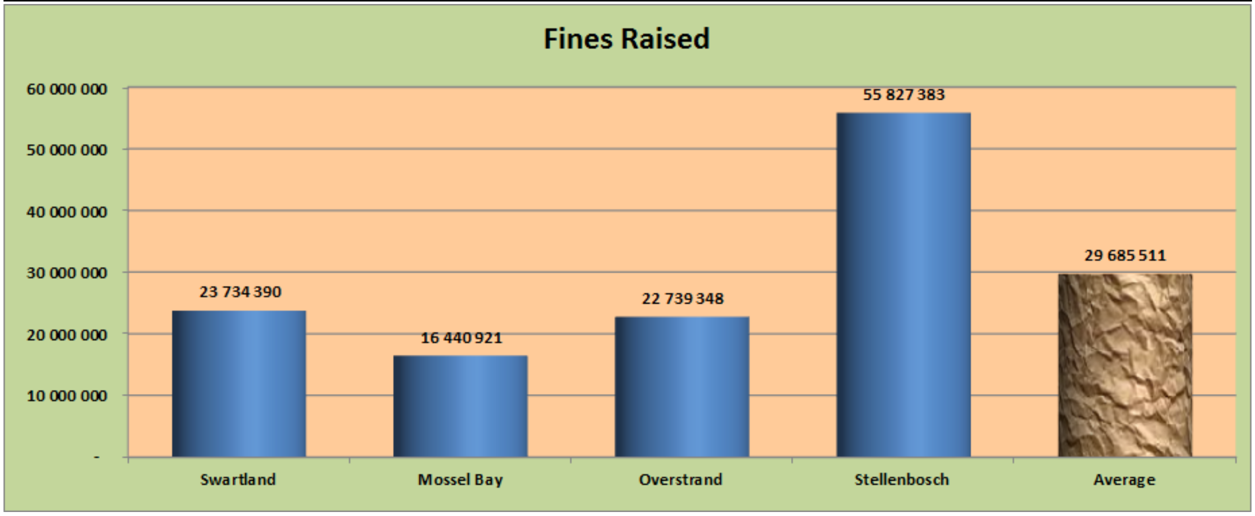


The collection rate of fines during 2013/2014 amounted to 21.32%. Ignoring any uncollected fines (that could potentially be collected) issued on or prior to 30 June 2013 and only focusing on uncollected fines projected for the period 2013/2014 to 2018/2019, the municipality will identify potentially uncollected fines amounting to R 115.793 million based on the assumption that the current collection rate will prevail over the entire period (Placing this figure in perspective - the projected shortfall in the Water department over the same period is projected to be R 81.752 million).

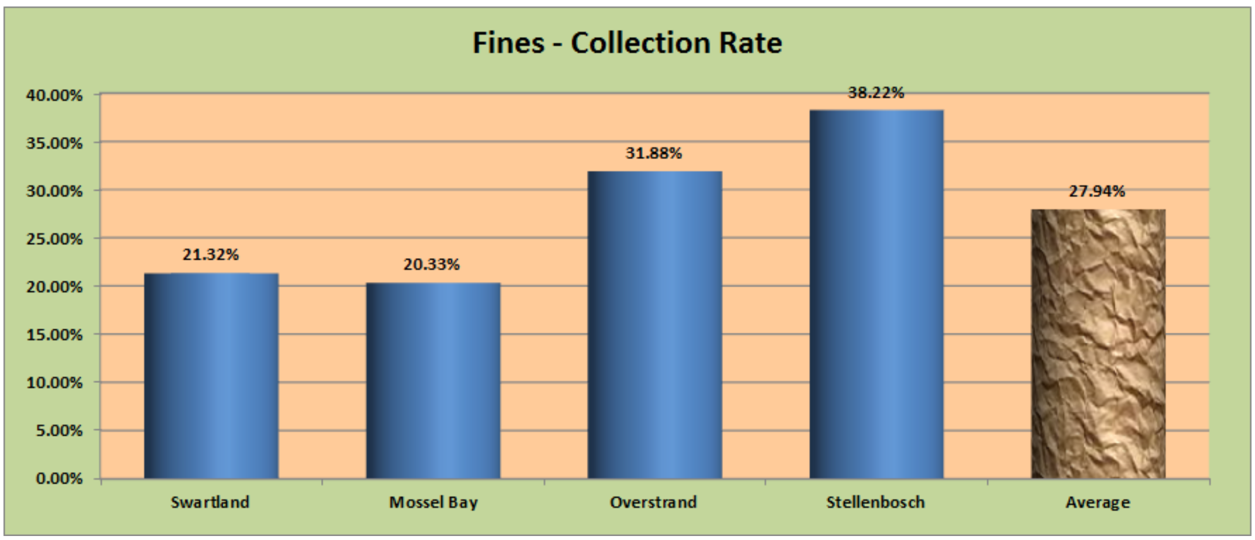
	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	Total
Fines Raised	23 734 390.23	20 786 559.23	25 140 515.04	25 735 312.50	25 835 588.13	25 935 877.53	**147 168 242.66**
Projection - Cash Collected	5 059 975.05	4 431 521.94	5 359 749.19	5 486 555.07	5 507 933.00	5 529 313.87	**31 375 048.13**
Outstanding Transferred to Receivables	18 674 415.18	16 355 037.29	19 780 765.85	20 248 757.43	20 327 655.12	20 406 563.66	**115 793 194.53**
Effect of 1% improvement in collection rate	237 343.90	207 865.59	251 405.15	257 353.13	258 355.88	259 358.78	**1 471 682.43**

Approximately R 1.5 million in fines can be collected for every 1% improvement in the collection rate over the period above.

In the Benchmark Group (excluding Saldana Bay Municipality which raised only R 2 million worth of fines revenue during 2013/2014), Swartland's fine revenue compares as follows:



Comparing the collection rates of the municipalities above, and specifically with that of Stellenbosch and Overstrand Municipality, it is quite evident that there is the potential to increase collection rates at Swartland Municipality.



5. SECTION 5: FINANCIAL OVERVIEW: EXPENDITURE MANAGEMENT

"Building on cost containment guidelines approved by Cabinet in October 2013, government at all levels will need to identify opportunities to increase efficiency and reduce waste. At a national level, the 2015 budget will pay particular attention to reducing line items that are not critical to service delivery to reinforce cost containment. Municipalities are still urged to implement the cost containment measures…" ***Circular 74 - Municipal Budget Circular for the 2015/16 MTREF***

In the municipal environment, the following line items are considered to be the main cost drivers, as it represents more than 90% of the total operating expenditure of the Swartland Municipality:

- Employee Related Costs
- Debt Impairment
- Depreciation and Asset Impairment
- Bulk Purchases
- Other Expenditure (Including Repairs and Maintenance)

Total operating expenditure (excluding expenditure directly related to conditional grant funding) amounted to R 453.252 million in 2013/2014. This figure is expected to increase to R 668.454 million in 2018/2019.

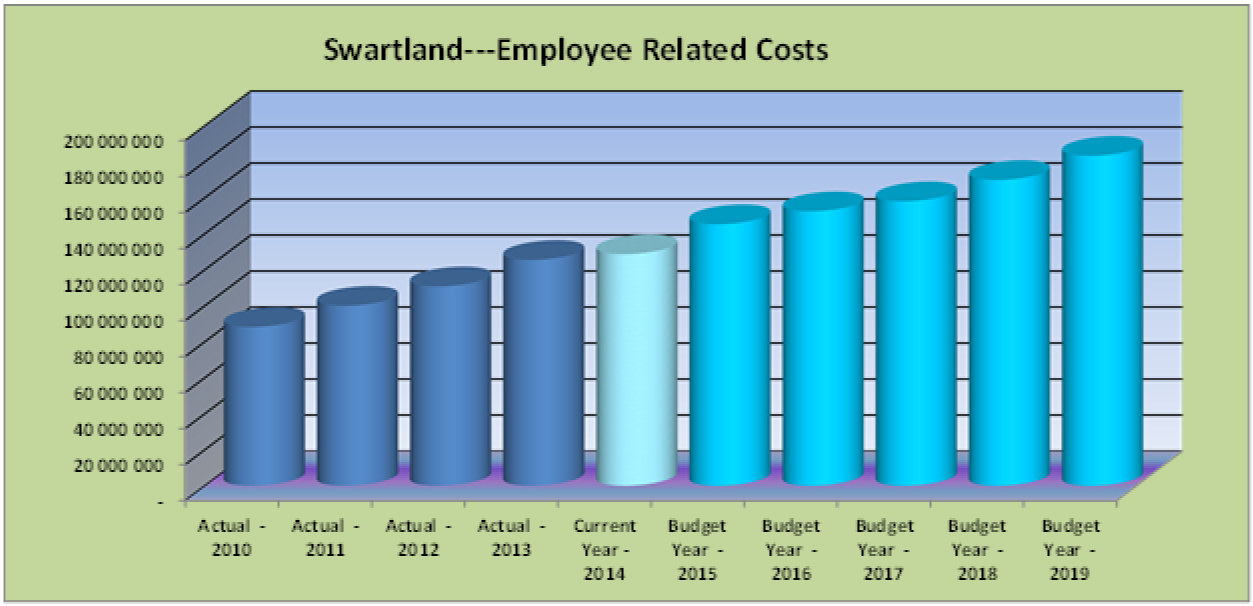
These major line items is analysed in detail below.

5.1 Employee Related Costs

Employee related costs make up approximately a third of the total operating expenditure of the municipality. Thus, it is of the utmost importance to monitor this line item on a regular basis to ensure that it is within set limits. Excessive increases, without the corresponding increase in revenue, could negatively impact on the long term sustainability of the municipality.

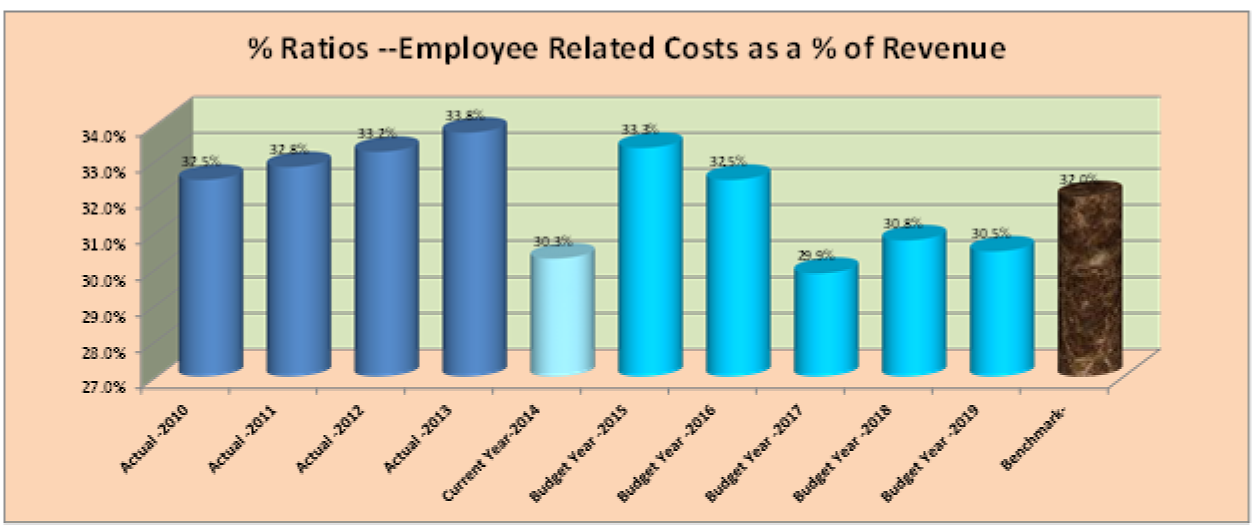
The wage bill of Swartland Municipality is set to increase from R 128.665 million in 2013/2014 to R183.280 million in 2018/2019. This increase, which factors in proposed annual increases per Circular 74 of the National Treasury, amounts to an average annual increase of 7.33% over the 5

year period. The increase is illustrated below:



To evaluate the projected employee related cost figure, it is compared to certain benchmarks established in the Western Cape in recent years. Employee related cost is benchmarked against both revenue and expenditure to evaluate the appropriateness of the projected figures.

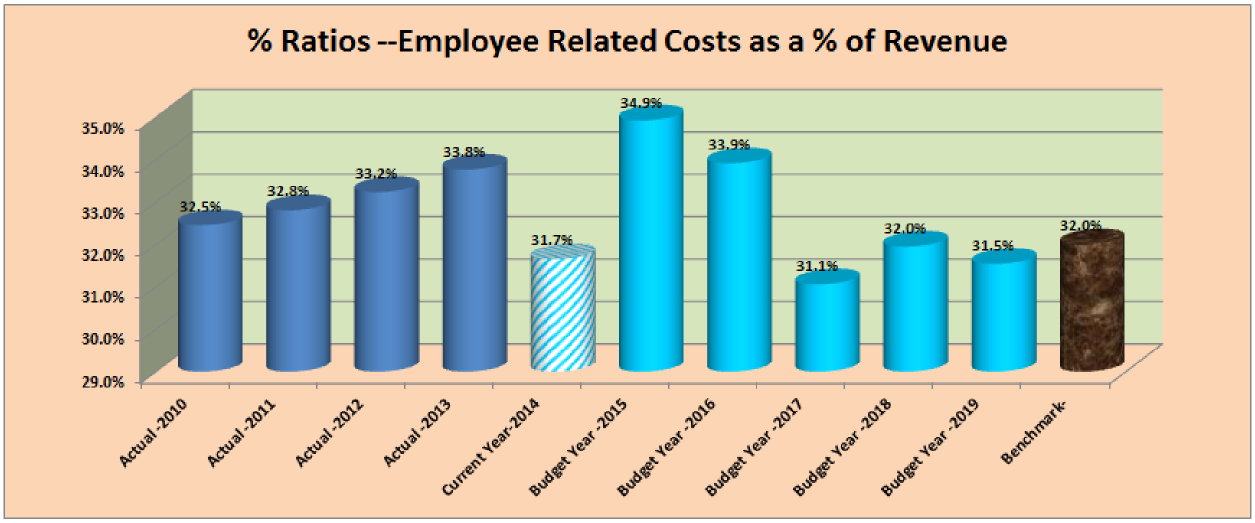
Firstly, Employee Related Costs is benchmarked against revenue. As indicated below, the employee related costs will be above the benchmark of 32% during 2014/2015 and 2015/2016, before it settles below the norm during the period 2016/2017 to 2018/2019.



However, we should be mindful of the fact that the Western Cape Provincial Treasury's benchmark model was established before the inception of iGRAP 1 (Refer to Section 4.4 relating to fines). Fines

revenue can have a significant effect on the ratio above and it is considered prudent to reduce fine revenue in line with actual receipts before reaching final conclusions.

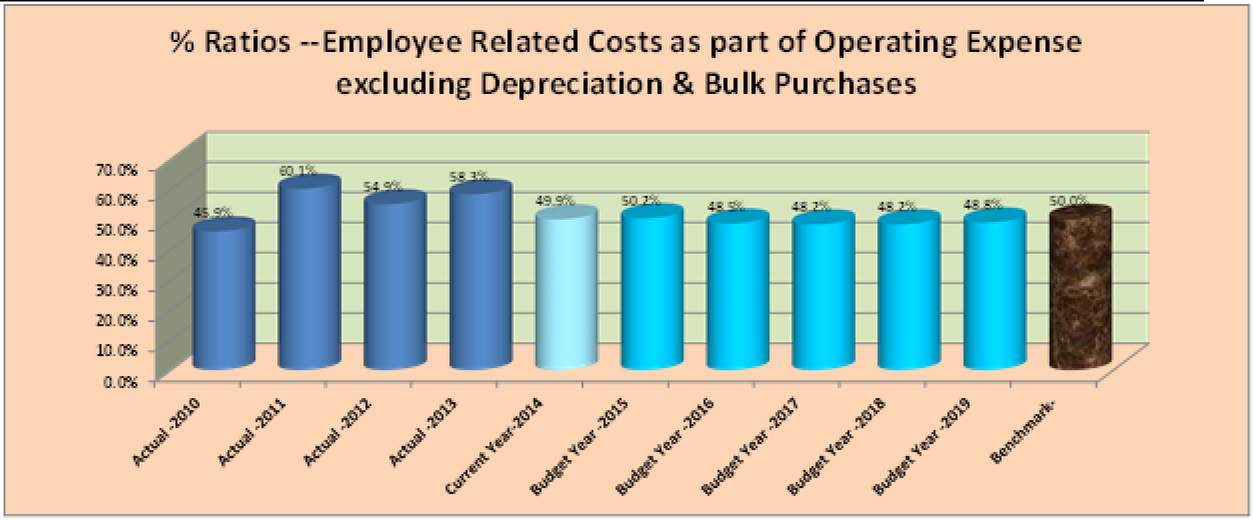
Evaluating revised figures, that exclude uncollected fines, the scenario reflects as follows:



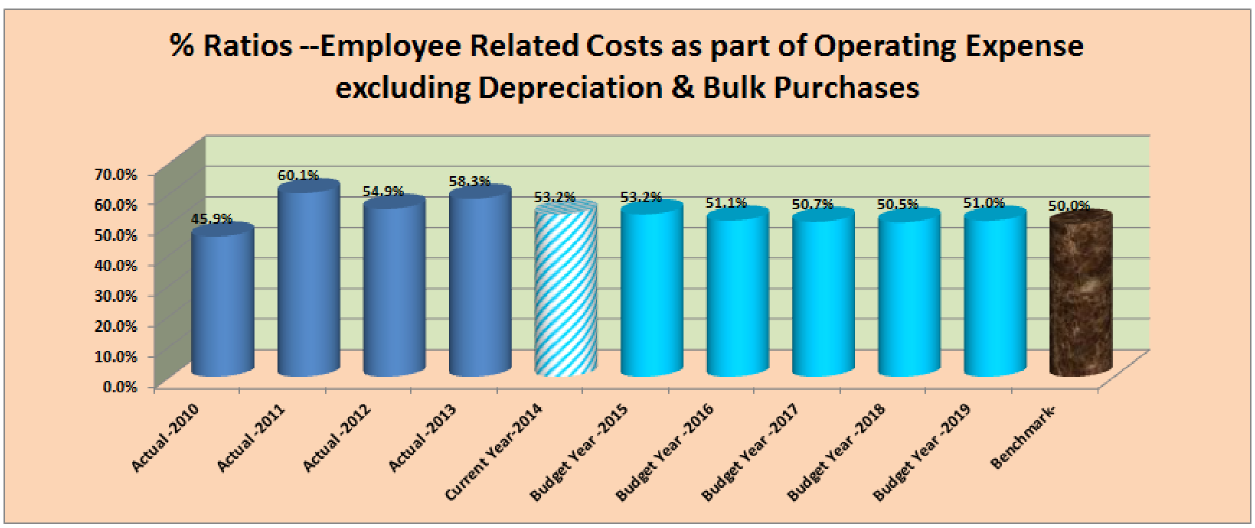
The figures for 2014/2015 and 2015/2016 are still well above the norm of 32%. Even though the 3 outer years from 2016/2017 to 2018/2019 are still projected to be within the norm, the room for further increases are very limited.

Secondly, Employee Related Costs is benchmarked against an operating expense indicator. When benchmarks were set in the Western Cape, the team that was tasked to determine the benchmarks, specifically focussed on significant items that might distort ratio's when comparing one municipality with another. For this reason, a benchmark was established that excludes material items such as Depreciation and Bulk Purhases. These items can fluctuate significantly between different municipalities due to different asset valuation techniques or service delivery areas .

Based on this indicator, the municipality is projected to be well within the limits of the norm throughout the projected period from 2013/2014 as indicated below:



However, similar to the scenario with the revenue indicator, these benchmarks were set before the introduction of the revised IGRAP 1 that had a significant effect on fines revenue as well as the related debt impairment expense. To ensure that this material item does not distort the benchmark, the debt impairment relating to fines were excluded from the figures to reflect the scenario below:



This indicates that the employee related cost figure is in excess of the norm throughout the period stretching from 2010/2011 to 2018/2019. If we also take into account the fact that Swartland Municipality is taking a very conservative approach when budgeting for the debt impairment of consumer debtors, is found that the scenario is even more negative than the one reflected above. (Refer to Section 5.2 for analysis on Debt Impairment).

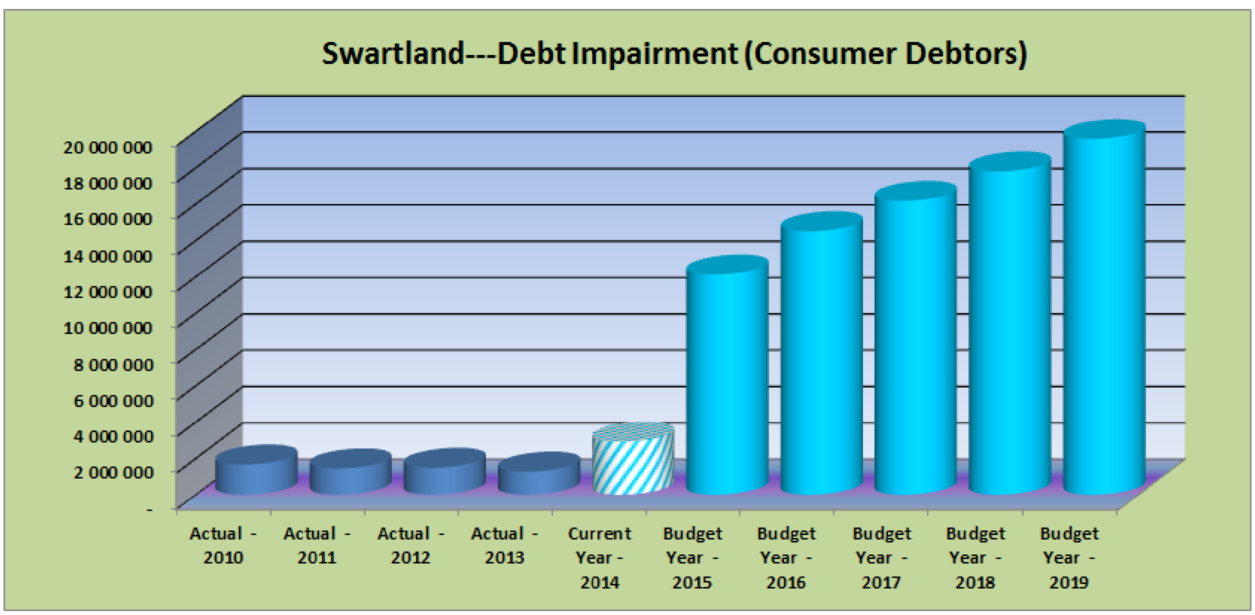
The figures do not take into account the new TASK that is yet to be implemented.

5.2 Debt Impairment

Although considered by many to be a non-cash item and not very important to include in the operating budget, it is very important to accurately budget for debt impairment to reduce the gross receivable balance to the net recoverable amount. It is also very important to factor any potential non- payment of debtors into the tariff structure of the municipality.

The debt impairment figure consist out of 2 significant items, namely the impairment charge relating to consumer debtors (including rates receivables) as well as the impairment charge relating to fines.

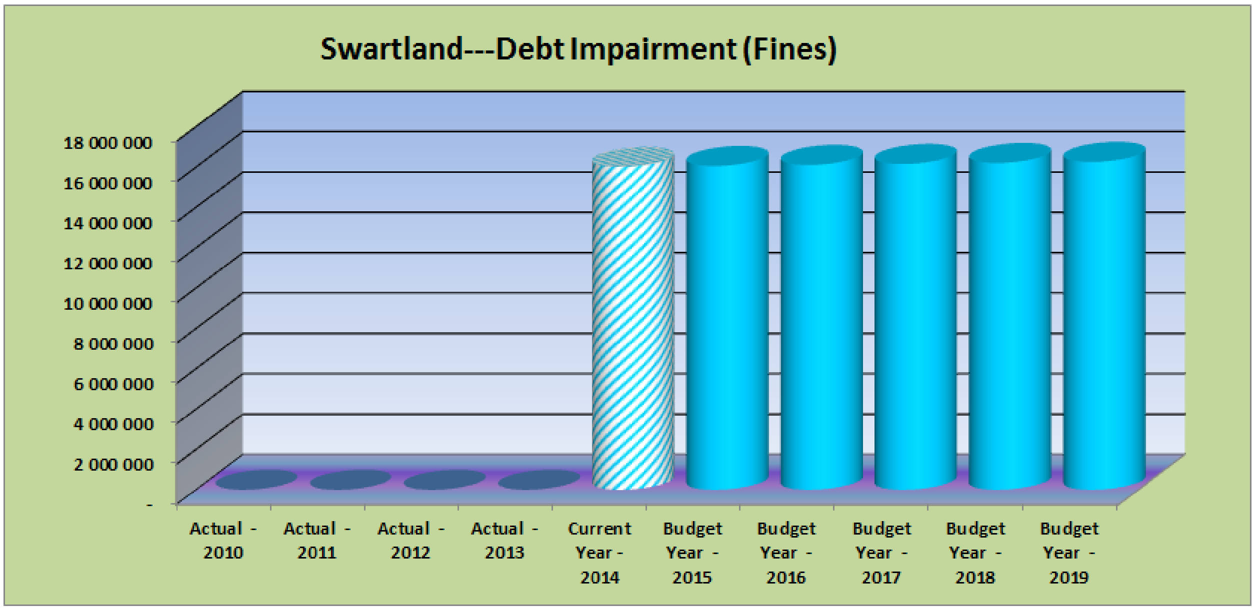
From the graph below it is obvious that the projected debt impairment relating to consumer debtors for the period 2014/2015 through to 2018/2019 is well in excess of the actual results for years on or prior to 2013/2014. This sharp increase since 2013/2014 can mainly be attributed to the conservative approach followed when estimating the impairment charge to be recognised for budgeting purposes. For budgeting purposes, the municipality utilises a payment ratio of 95% (which is still considered to be in line with good practice!), while in recent years, through strict collection control measures, the municipality have managed to collect debtors at a rate of approximately 98%.



This “buffer” of approximately 3% between the projected and actual collection rate has worked to the advantage of the municipality in recent years. By collecting these “additional” revenues, the municipality has managed to beat financial forecasts in recent years. By applying this conservative approach to debt collections, the municipality will be better geared towards the scenario where the

collection rates are negatively impacted due to circumstances beyond their control (i.e. in the event of financial "shocks/set-backs").

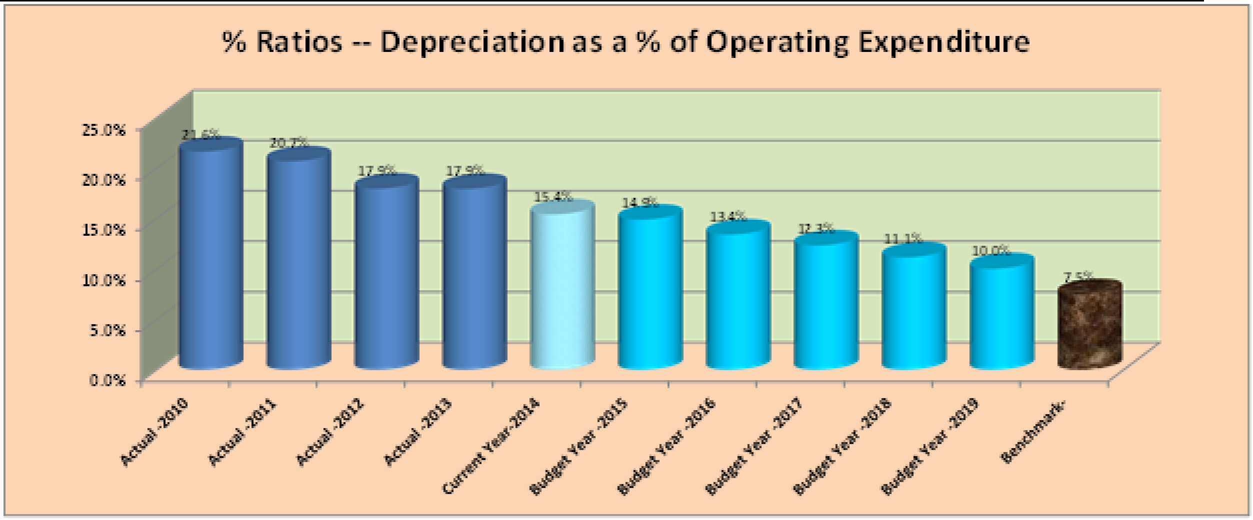
The significant increase in debt impairment relating to fines can be attributed to the changes in iGRAP 1 specifically relating to fines (non-exchange revenue). The municipality is encouraged to improve collection rates relating to fines. This will not only reduce the level of debt impairment charges to be recognized, but also significantly improve the net cash position of the municipality as discussed in section 4.4.

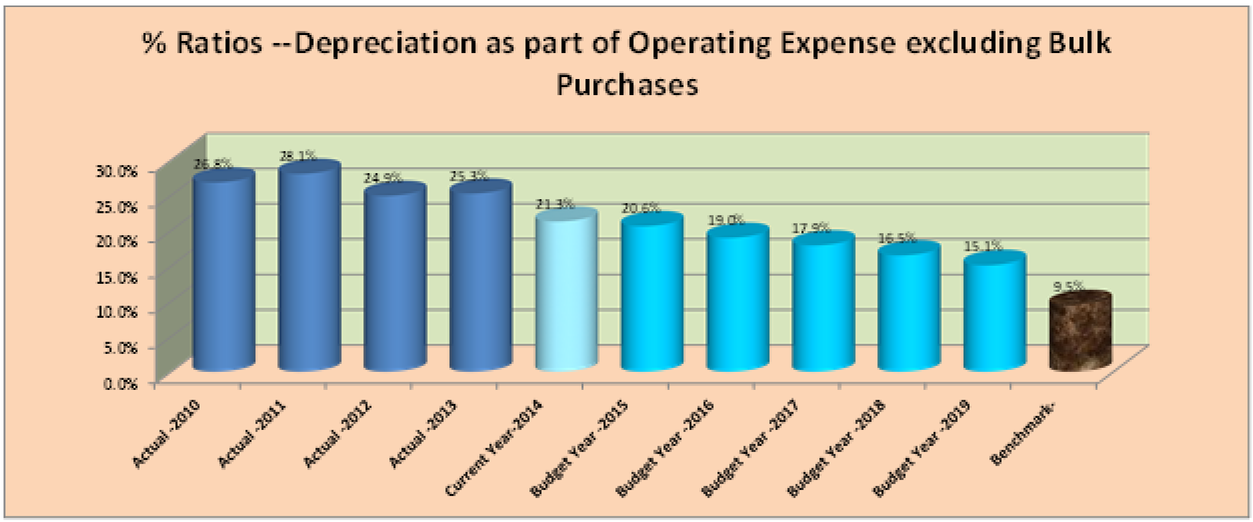


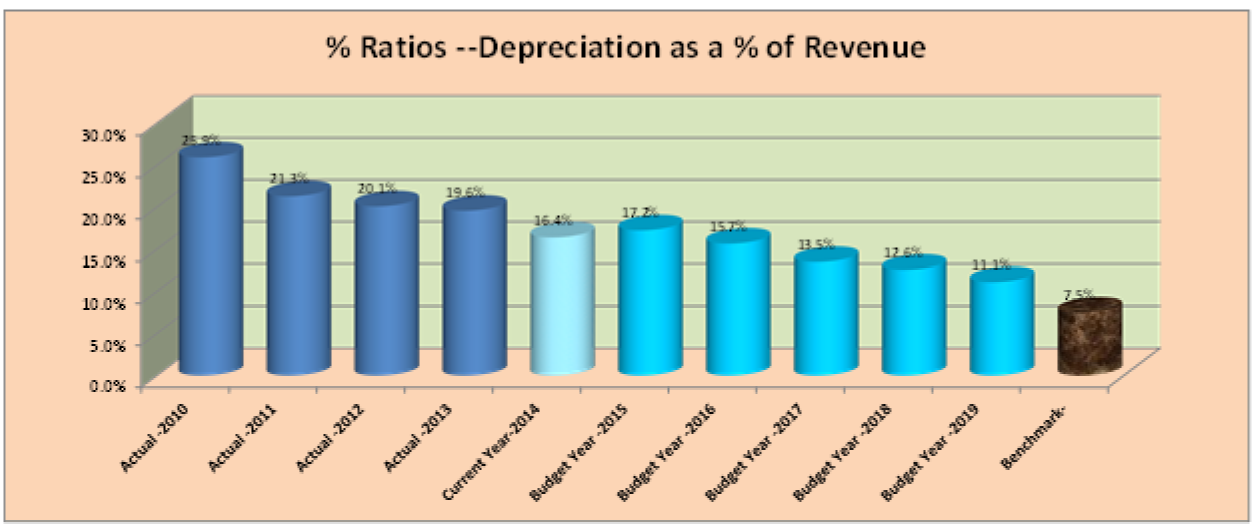
5.3 Depreciation and Asset Impairment

Depreciation is widely considered a proxy for the measurement of the rate of asset consumption. Although depreciation is a non-cash item, the expense should still be factored into the tariffs and rates charged by the municipality to ensure that sufficient resources are available when assets needs to be replaced.

Relative to benchmarks set for depreciation in the Western Cape (revenue and expenditure benchmarks), the municipality's depreciation charge is well above the norm. The downward trend moving more in line with the norm is however encouraging.


% Ratios -- Depreciation as a % of Operating Expenditure
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
21.6%
20.7%
17.9%
17.9%
15.4%
14.9%
13.4%
12.3%
11.1%
10.0%
7.5%
Actual -2010
Actual -2011
Actual -2012
Actual -2013
Current Year-2014
Budget Year -2015
Budget Year -2016
Budget Year -2017
Budget Year -2018
Budget Year -2019
Benchmark-

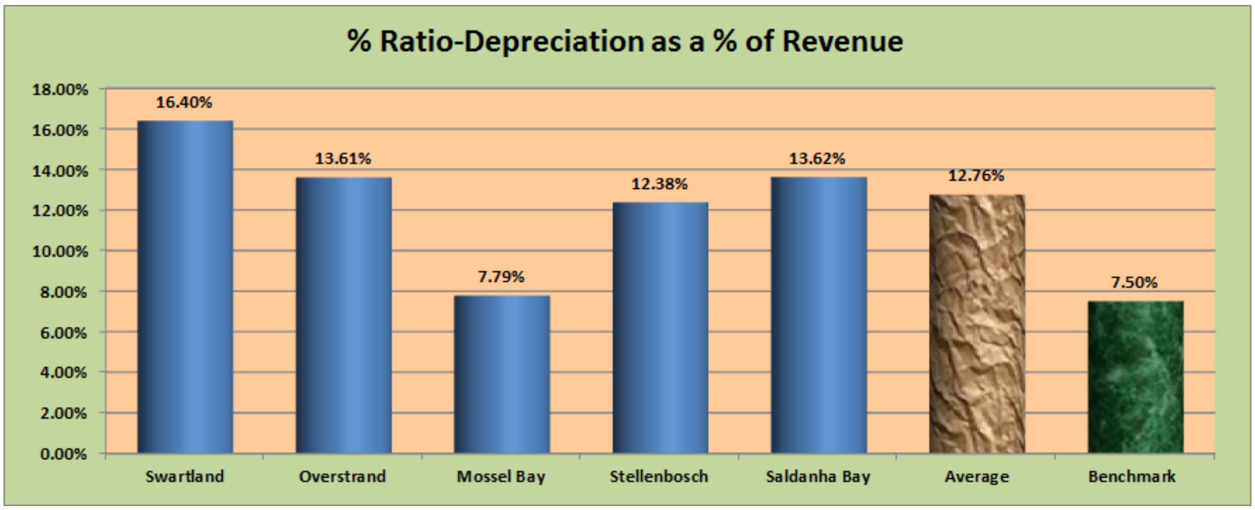

% Ratios --Depreciation as part of Operating Expense excluding Bulk Purchases
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
26.8%
28.1%
24.9%
25.3%
21.3%
20.6%
19.0%
17.9%
16.5%
15.1%
9.5%
Actual -2010
Actual -2011
Actual -2012
Actual -2013
Current Year-2014
Budget Year -2015
Budget Year -2016
Budget Year -2017
Budget Year -2018
Budget Year -2019
Benchmark-


% Ratios --Depreciation as a % of Revenue
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
25.9%
21.3%
20.1%
19.6%
16.4%
17.2%
15.7%
13.5%
12.6%
11.1%
7.5%
Actual -2010
Actual -2011
Actual -2012
Actual -2013
Current Year-2014
Budget Year -2015
Budget Year -2016
Budget Year -2017
Budget Year -2018
Budget Year -2019
Benchmark-

This relative high contribution that depreciation and asset impairment makes towards the total operating expenditure mix of the municipality can be attributed to the following:

- The continued large capital program employed by the municipality; and
- The application of a deemed cost in terms of Directive 7 issued by the Accounting Standards Board for the valuation of infrastructure asset. This effect has however become more diluted over recent years.

When the depreciation charge recognised at Swartland Municipality is compared to the Benchmark Group, the municipality is the worst performer based on depreciation charges.



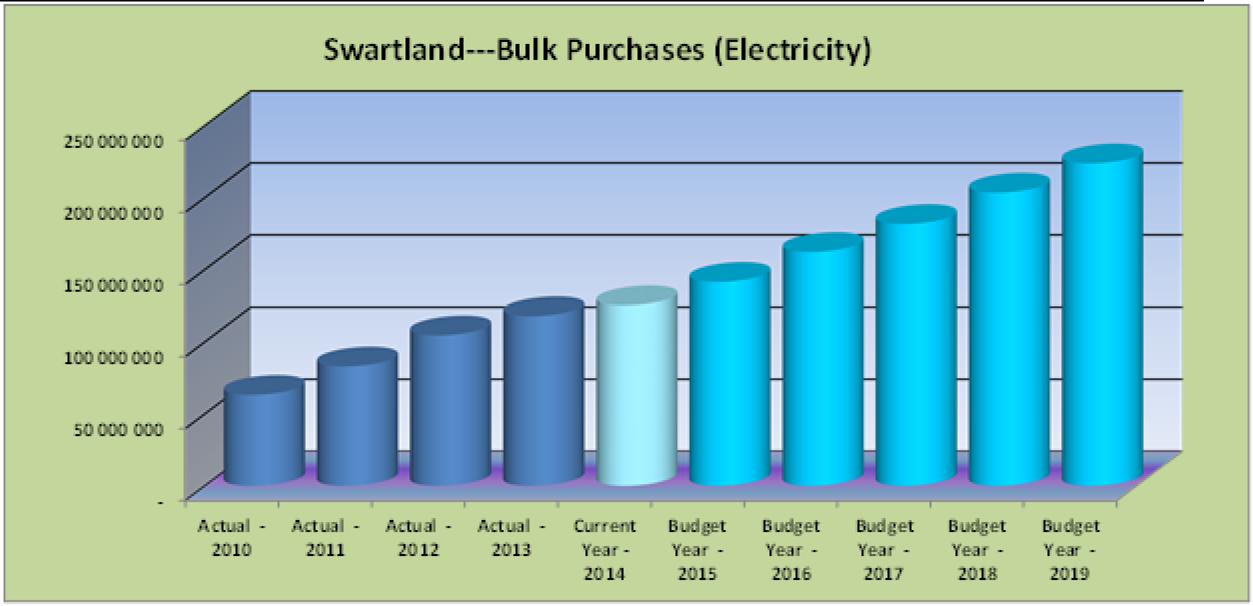
It should be noted that all municipalities utilised the deemed cost approached contained in Directive 7 to value infrastructure assets on GRAP conversion date, with the exception of Mossel Bay Municipality that opted for a Cost Conversion approach. The depreciation charge recognised at Mossel Bay Municipality is relatively in line with the proposed benchmark.

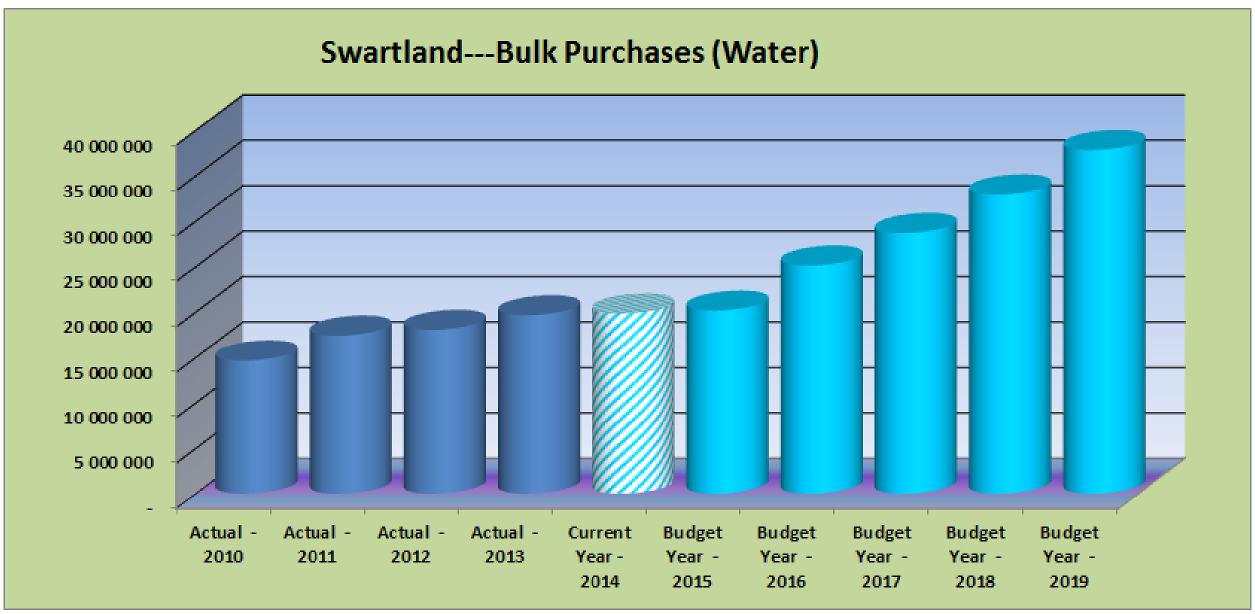
More detail with regards to depreciation will be included in Section 8 of this report.

5.4 Bulk Purchases

The increase in bulk purchases is largely beyond the control of the municipality, as this expenditure line item is linked to the level of consumption by consumers as well as increases passed onto the municipality by Eskom (bulk electricity) and the West Coast District Municipality (bulk water).

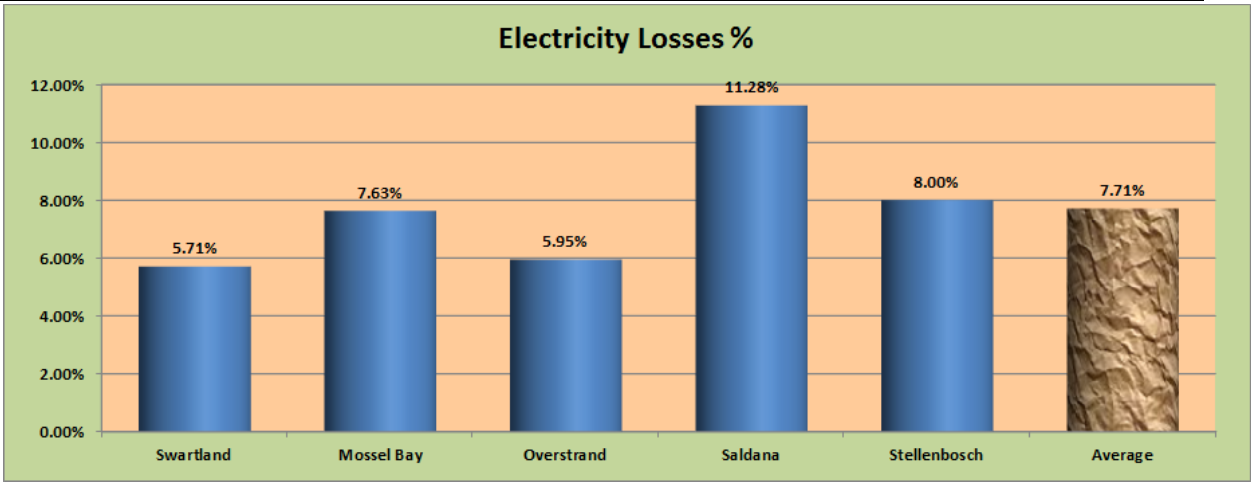
Bulk Purchases for Electricity is set to increase from R 125.343 million in 2013/2014 to R 223.810 million in 2018/2019, while Bulk Purchases for Water is set to increase from R 19.823 million to R 37.814 million in the same period. These increases represents and average annual increase of 12.29% and 13.79% for electricity and water respectively over the 5 year forecast as indicated below:

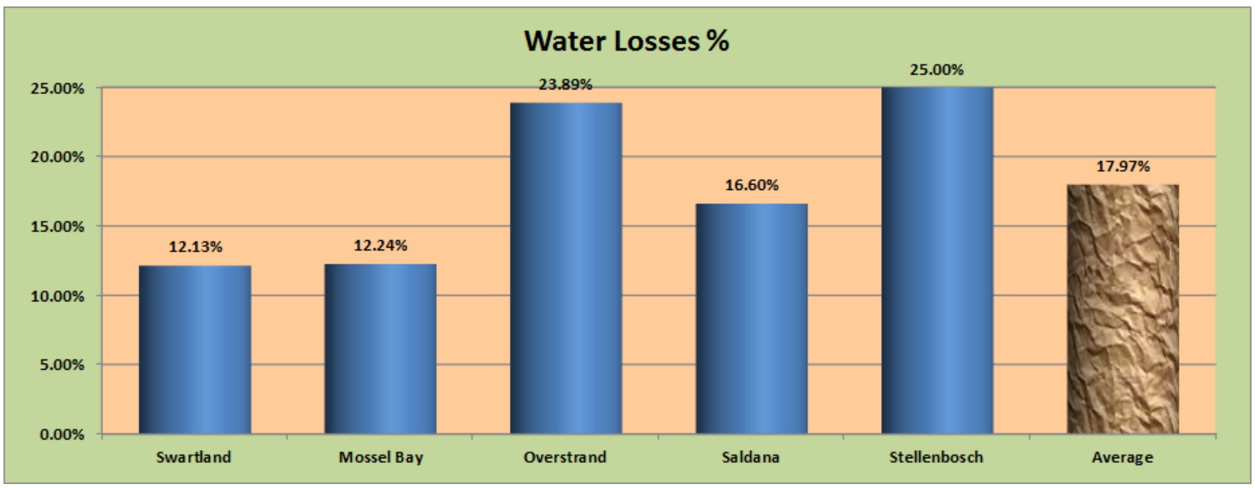




The municipality can however control internal consumption of water and electricity to a certain extent by applying strict measures that will ensure that departments within the municipality use these "commodities" sparingly.

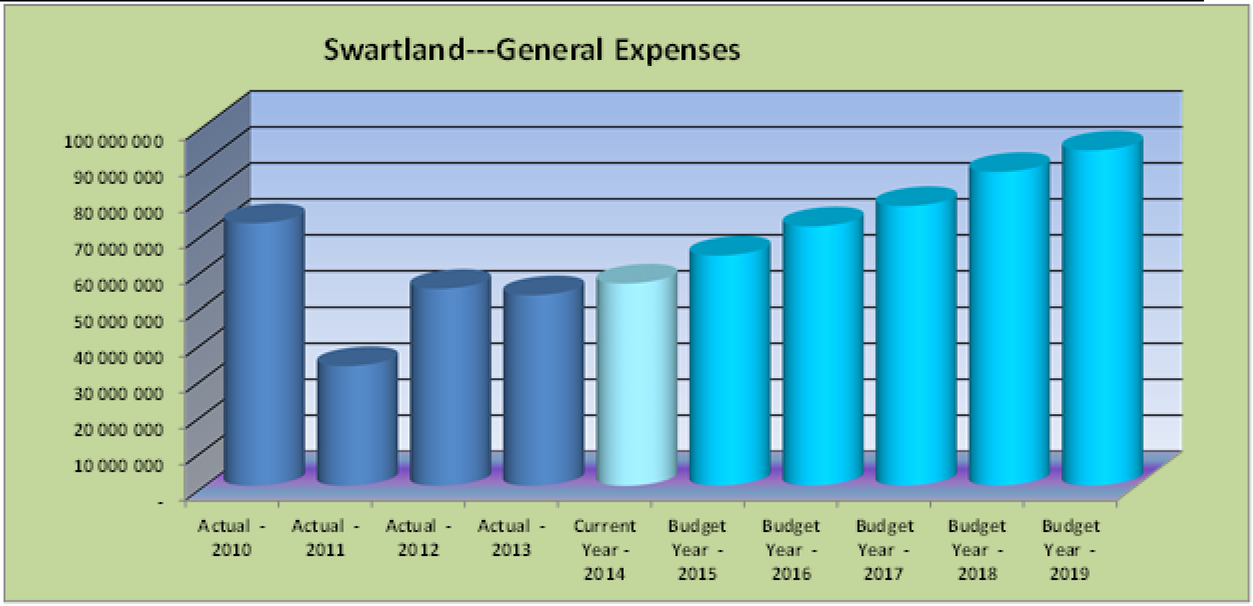
The municipality can control distribution losses to a certain extent by ensuring that infrastructure assets are well maintained, all consumers are billed accurately for water and electricity consumption and by implementing strict controls to limit illegal connections. However, based on statistics for the 2013/2014 year, the municipality is the best performing municipality when it comes to water and electricity losses as indicated below:





5.5 General Expenditure

General expenditure (excluding repairs and maintenance that will be discussed in Section 8 of this report) represents between 12% and 14% of total operating expenditure. This line item includes all expenditure that is not specifically catered for elsewhere in the statement of financial performance. General Expenses are projected to increase at an average annual rate of 10.66% over the period 2013/2014 to 2018/2019 as indicated below:

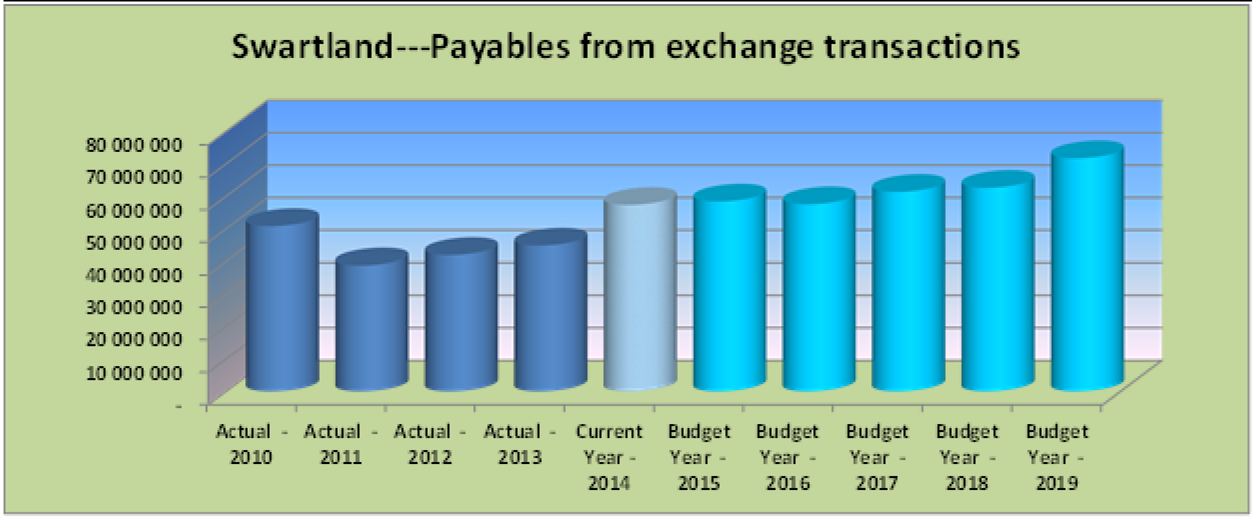


The municipality should review and assess the necessity of all expenditure included in this balance to identify any areas where expenditure can be curbed. The municipality should also refrain from allocating own revenue sources to functions of other spheres of government (unfunded/underfunded mandates). These allocations could pose a financial risk to the municipality due to the fact that funds are being allocated to non-core functions at the expense of basic service delivery. This is also a specific instruction from National Treasury in the latest budget documentation.

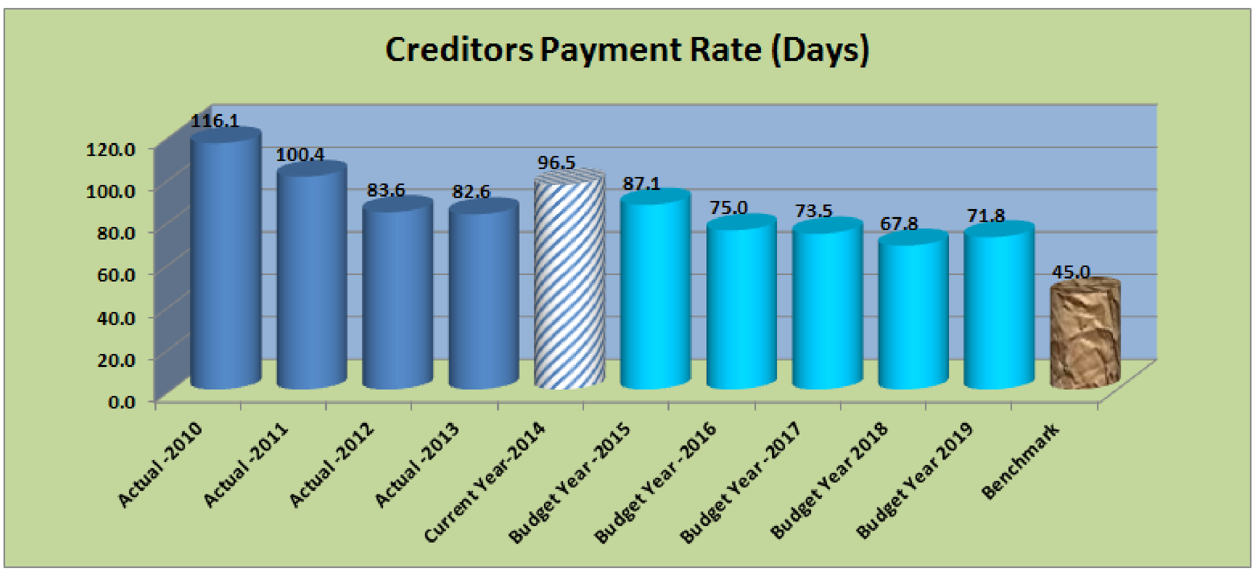
6. SECTION 6: FINANCIAL OVERVIEW: DEBTORS AND CREDITORS MANAGEMENT

Debtor and creditor management forms an integral part of any municipality’s long term financial strategy. Municipalities should ensure that they fully utilise credit terms (within the limits of the MFMA) provided to them by suppliers, while also ensuring that any money owing to them is collected as soon as possible. This will ensure that maximum cash levels are maintained at all times, which in turn will result in higher possible returns on money invested by the municipality.

The municipality has always managed to pay creditors when they become due and payable. It is assumed in the compilation of the budgeted figures for the period 2014/2015 to 2018/2019 that the status quo will be maintained and for this reason payables are projected to move in line with estimated operating and capital expenditure programs.

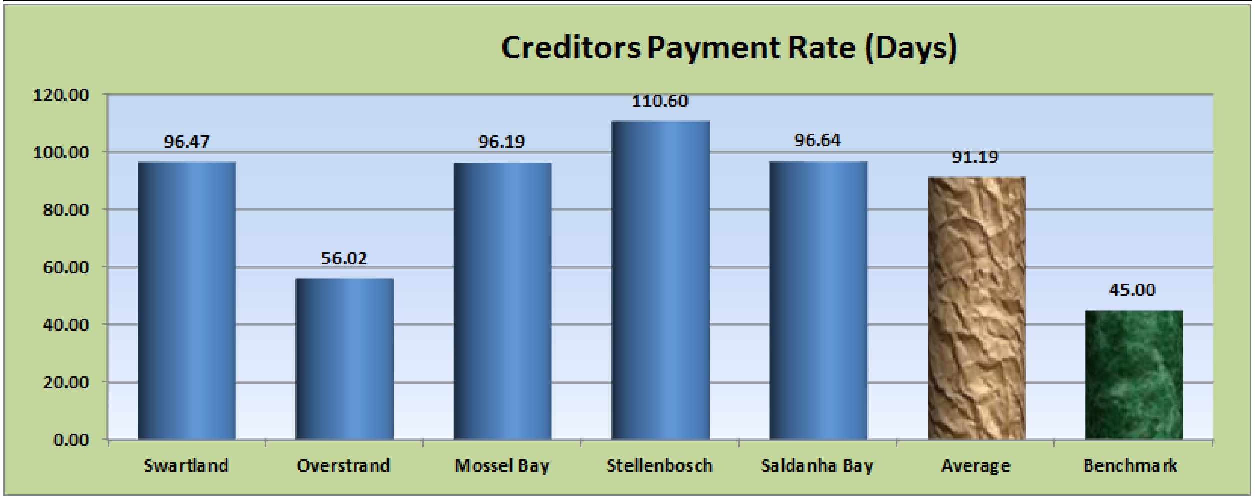


The payment rate of the municipality is expected to be very consistent for the next 5 years. However, any decline in cash balances (refer to section 7) could negatively impact on this ratio.

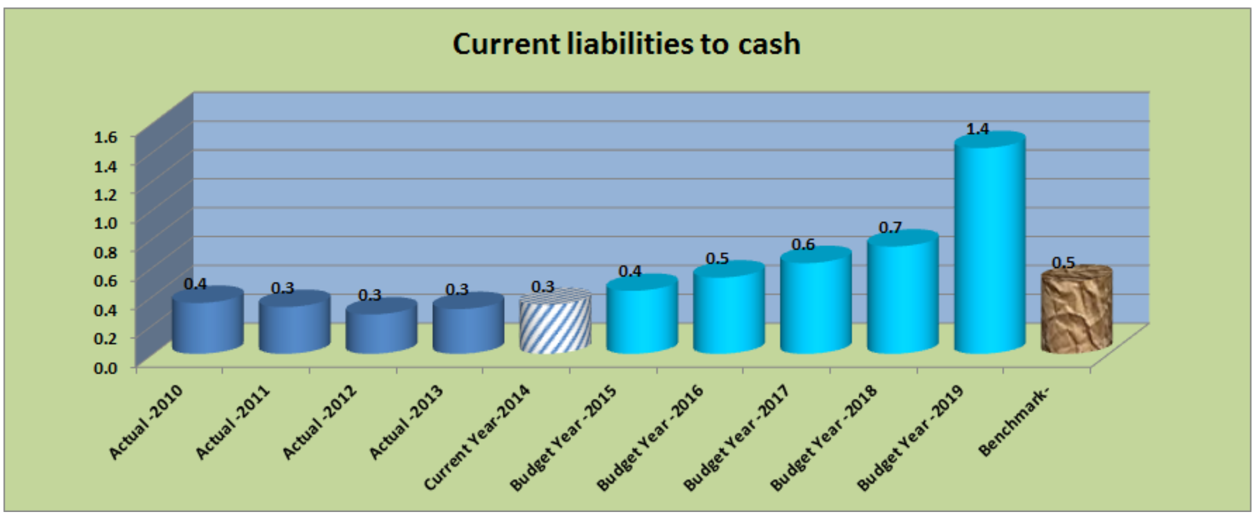


The ratio is above the norm of 45 days. This is not considered an immediate concern as long as payments are affected within MFMA limits. Is should be noted that payables include items such as retentions and staff leave that will not necessarily be converted into cash within the norm of 45 days.

Comparing the payment rate to the Benchmark Group, the municipality is relatively in line with its major peers (with the exception of Overstrand Municipality).

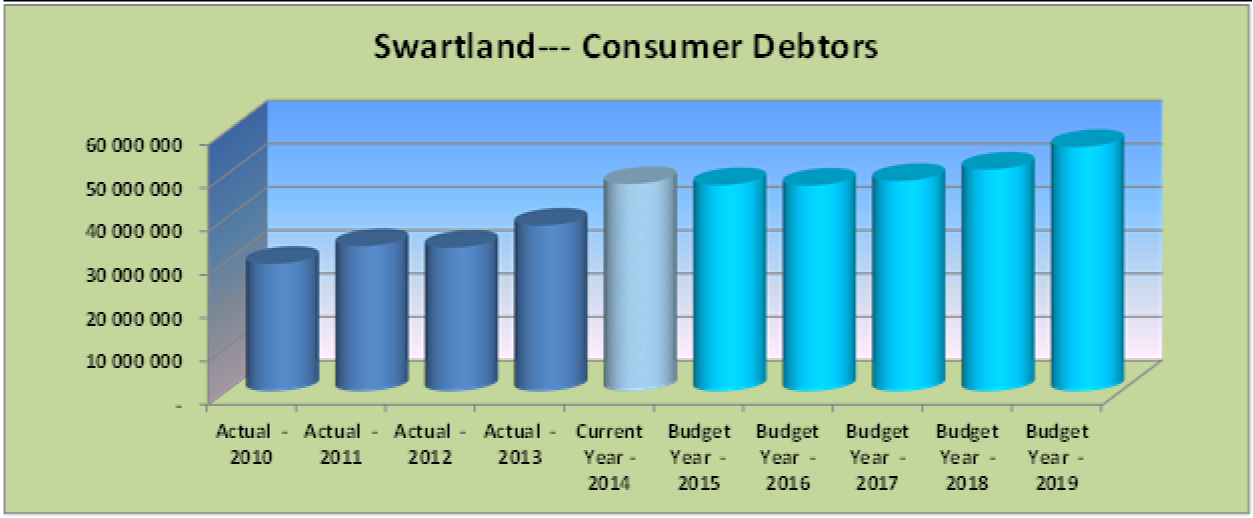


With reference to indicators that can be evaluated, the municipality should review the ratio between current liabilities and cash. This ratio is indicating a negative trend that should be managed as indicated below:

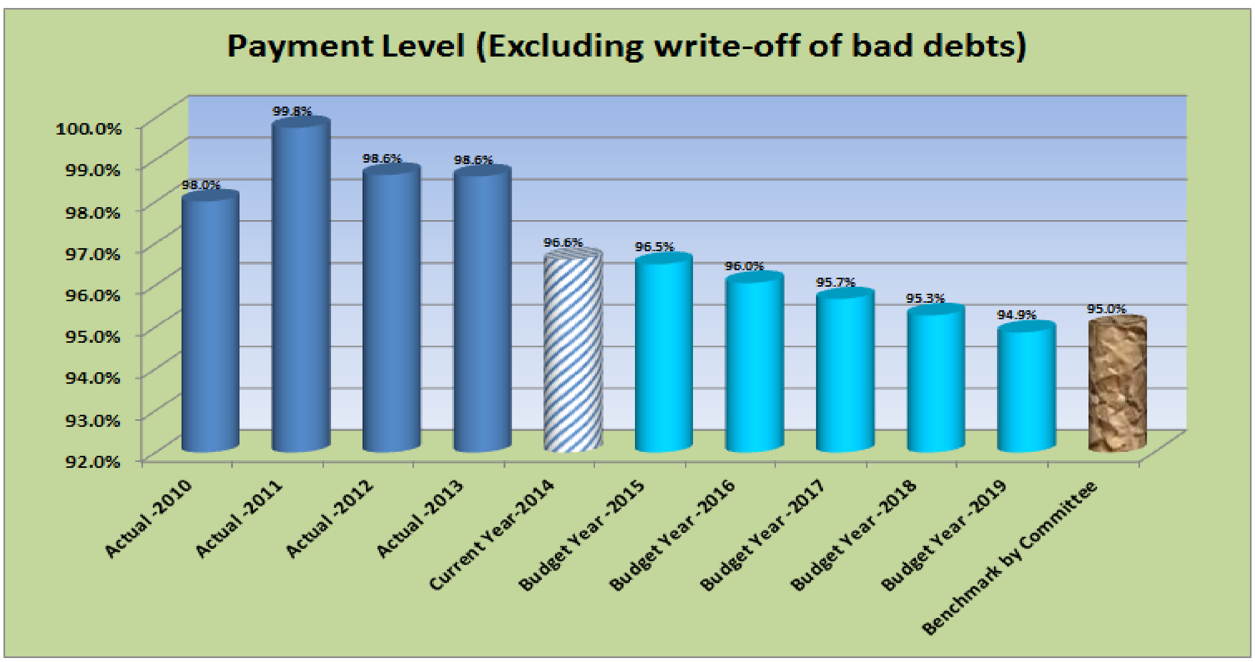


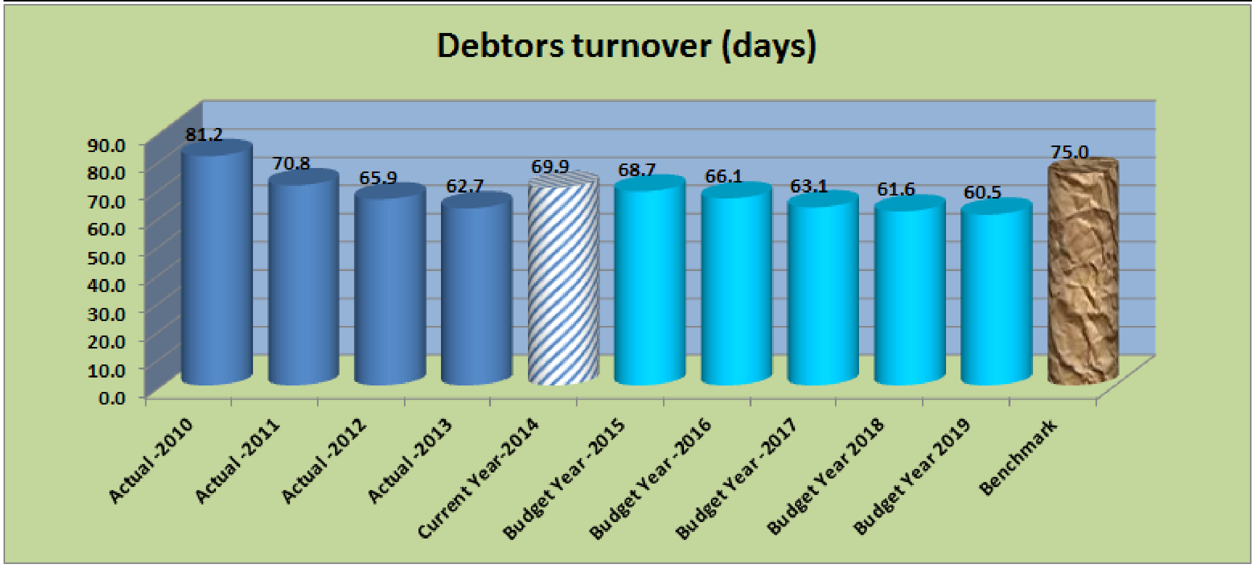
As mentioned before, no major issues exist with regards to the management of payables. This deteriorating trend can be attributed to diminishing cash resources that will be discussed in Section 7 of the report.

Debt collection is considered to be one of the major areas that contribute significantly to the financial well-being of any municipality. By applying strict collection measures, Swartland Municipality has managed to keep outstanding debtors in check as illustrated below:

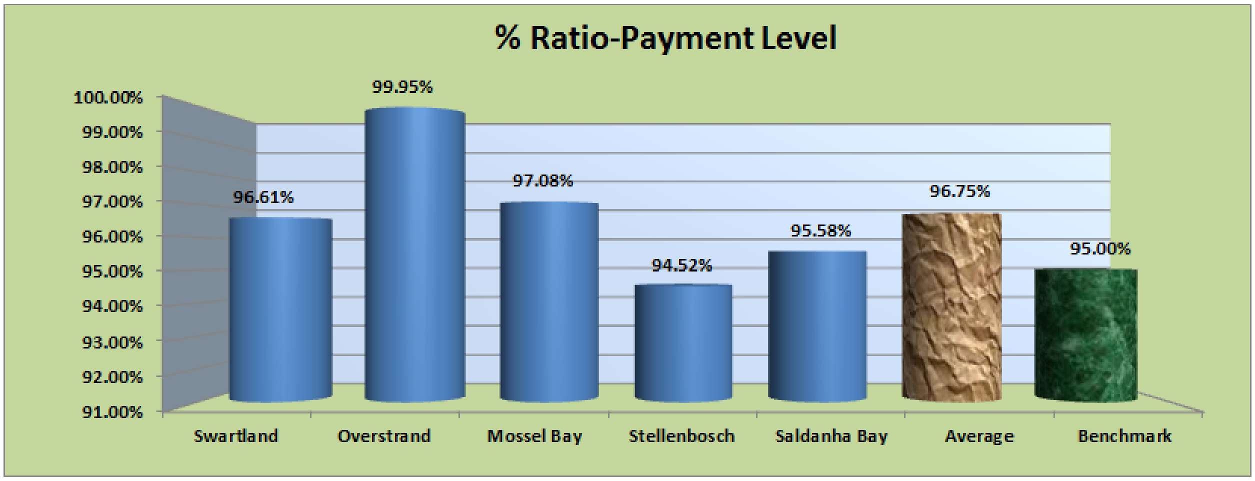


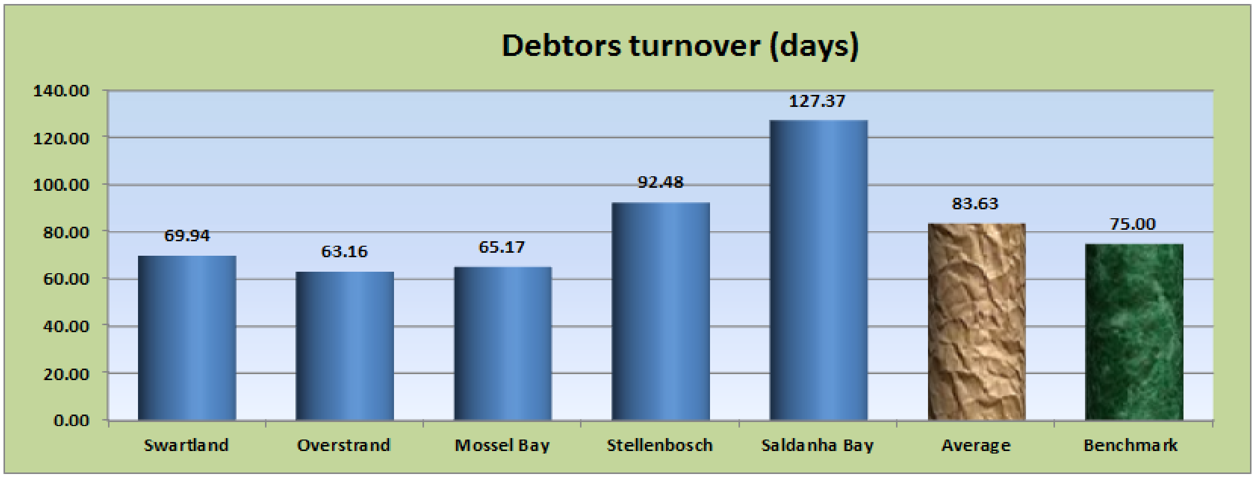
These strict measures resulted in strong performances when evaluating both payment levels (including other debtors) and debtor days as indicated below:





Compared to the Benchmark Group, the municipality's performance relating to debtors is also deemed to be sound:





As mentioned in section 5.2, Swartland Municipality has always followed a conservative approach when projecting outstanding debtor balances. While actual collection rates for consumer debtors were in the region of 98% during 2013/2014, the municipality based their debtor projections on a collection rate of approximately 95%.

Analysing the difference between the actual results for 2013/2014 and the budgeted figures for 2013/2014, the following results became evident:

The final cash position on 30 June 2014 exceeded expectations by R 38 540 711.

	Final Adjustment Budget 2013/2014	Actual Outcome 2013/2014	Difference
	R	R	R
Cash and Cash Equivalents	184 454 250	222 994 961	38 540 711

This result was made possible by the following material variances between the budget forecast for 2013/2014 and the actual results.

- Gross consumer debtors were lower than anticipated due to the conservative approach towards debtor projections

	Final Adjustment Budget 2013/2014	Actual Outcome 2013/2014	Positive effect on cash
	R	R	R
Variance in Gross Consumer Debtors (Including Rates)	69 786 435	53 681 447	16 104 988

- Savings due to not implementing the operating and capital program in full

	Final Adjustment Budget 2013/2014	Actual Outcome 2013/2014	Positive effect on cash
	R	R	R
Cost containing measures			
- Capital program not implemented in full	91 530 588	84 792 338	6 738 250
- Operating program not implemented in full (excluding non-cash items)	398 288 894	380 968 441	17 320 453
Total savings	489 819 482	465 760 779	24 058 703

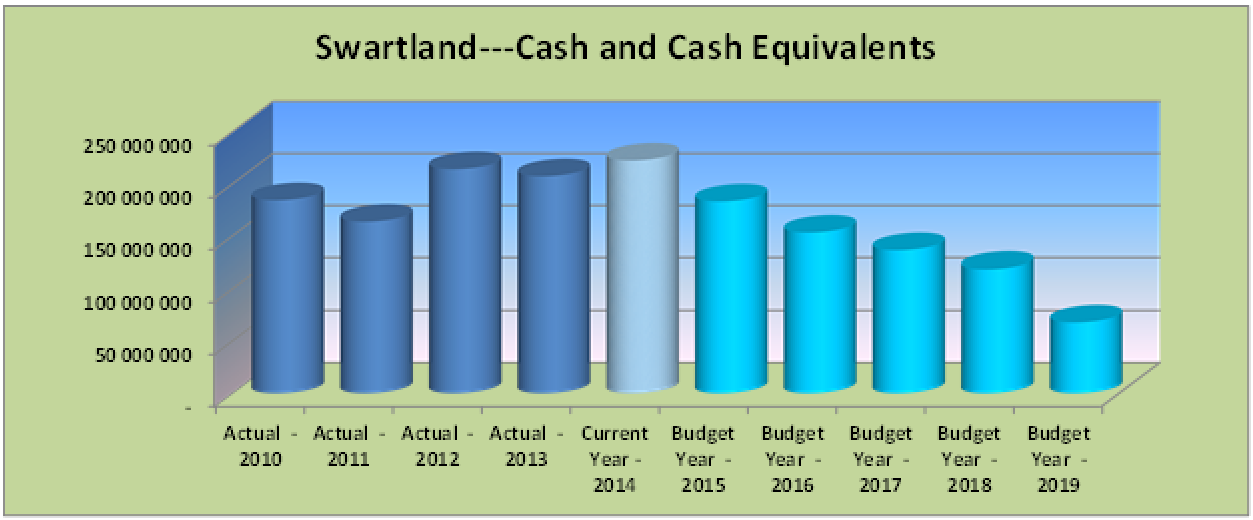
It is recognised that there are other items that could also influence the variance between the actual- and projected results (ie movement in payables, inventory, revenue raised), but these items above are considered to be the most material.

If the proposed budget (capital and operating) were to be implemented in full, the actual cash balance would have been significantly lower, leaving only the "buffer" created with the conservative approach followed with receivables as a defense for the municipality in the event of a financial shock/set-back.

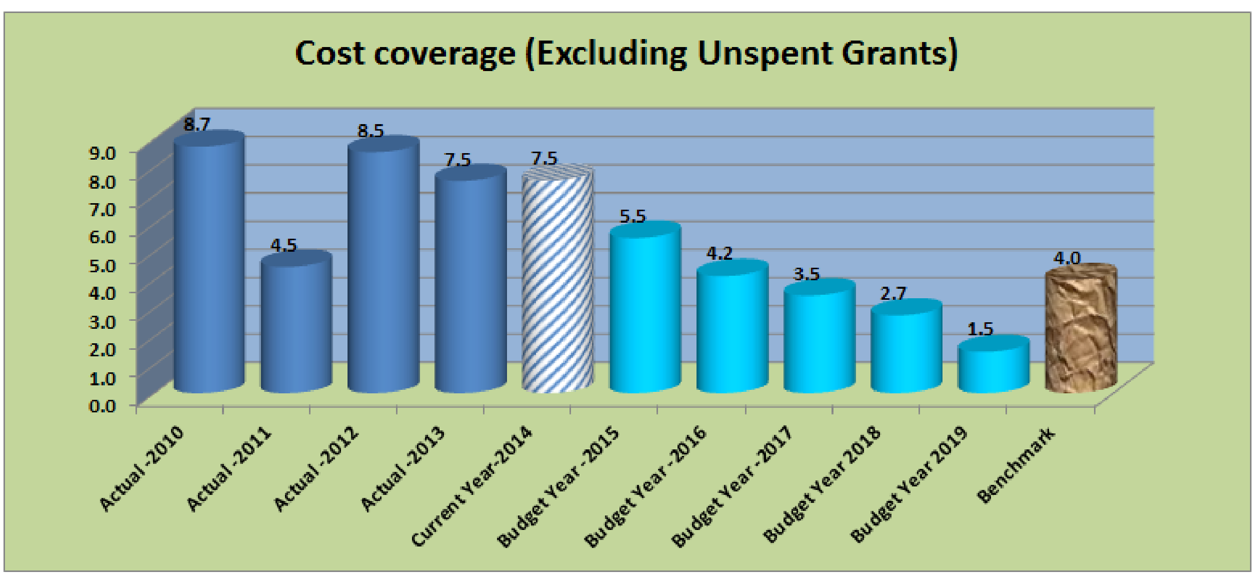
7. SECTION 7: FINANCIAL OVERVIEW: CASH MANAGEMENT

Cash management is the legal obligation to maximize all available resources and productivity levels and minimise ineffective expenditure and risks. This is done to accumulate sufficient cash and cash equivalents to secure the achievement of present and future constitutional objectives within the framework of the long-term financial plan as informed by the institution's integrated development plan.

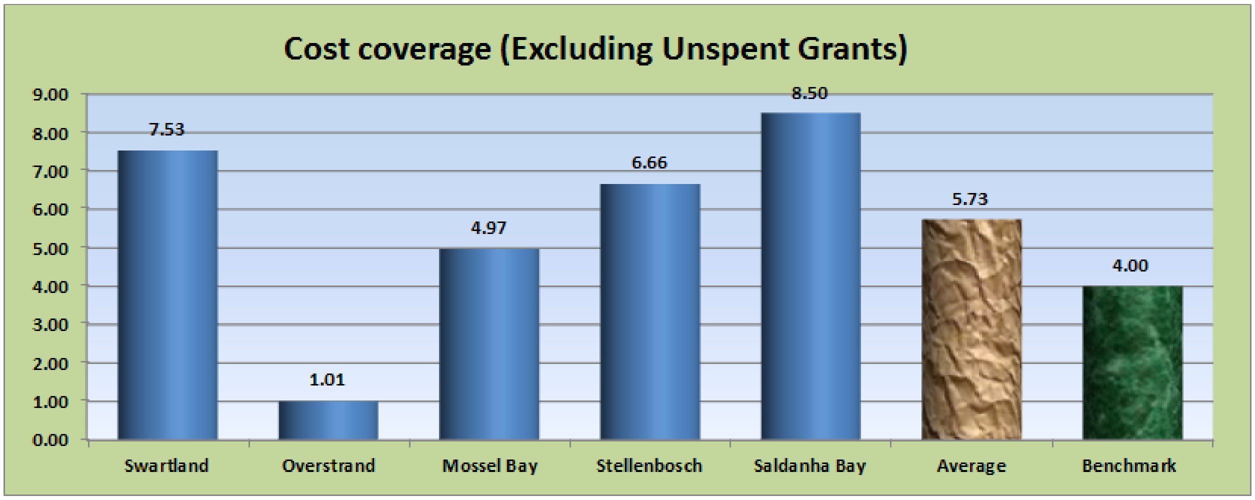
On the assumption that the municipality will fully implement the capital- and operating programs over the next 5 years, it is projected that there will be a significant decline in cash resources as illustrated below:



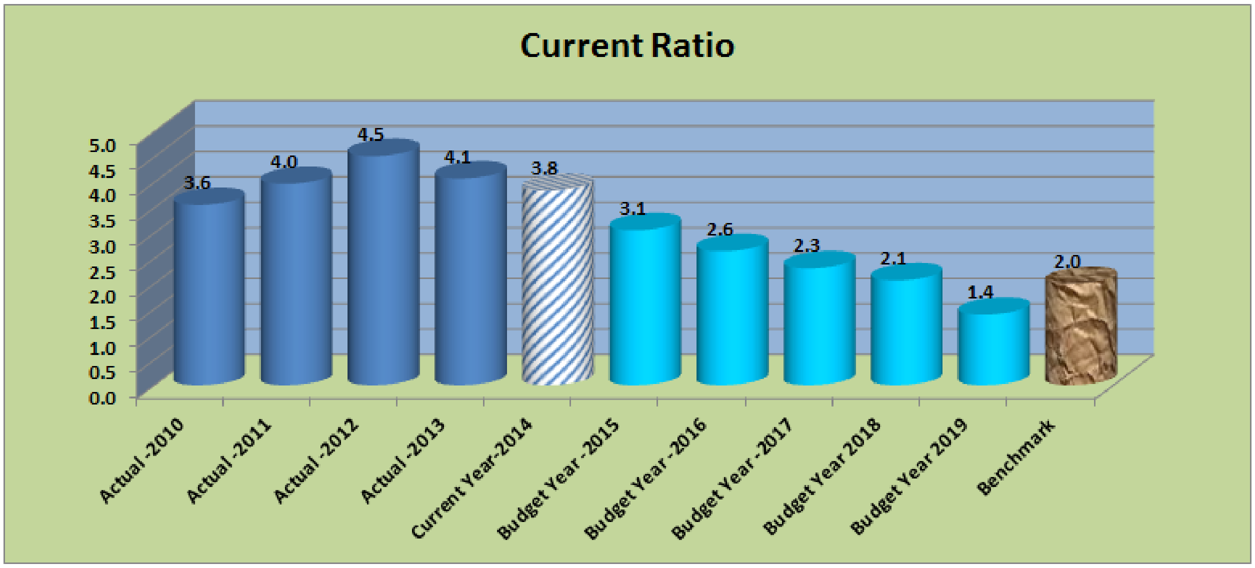
This decline in resources will negatively impact on a cost coverage ratio of the municipality up to a point not soon after the 2018/2019 financial year where the municipality will fully deplete its cash resources:



The municipality is currently in a relatively strong financial position (even compared to the peers in the Benchmark Group on 30 June 2014):



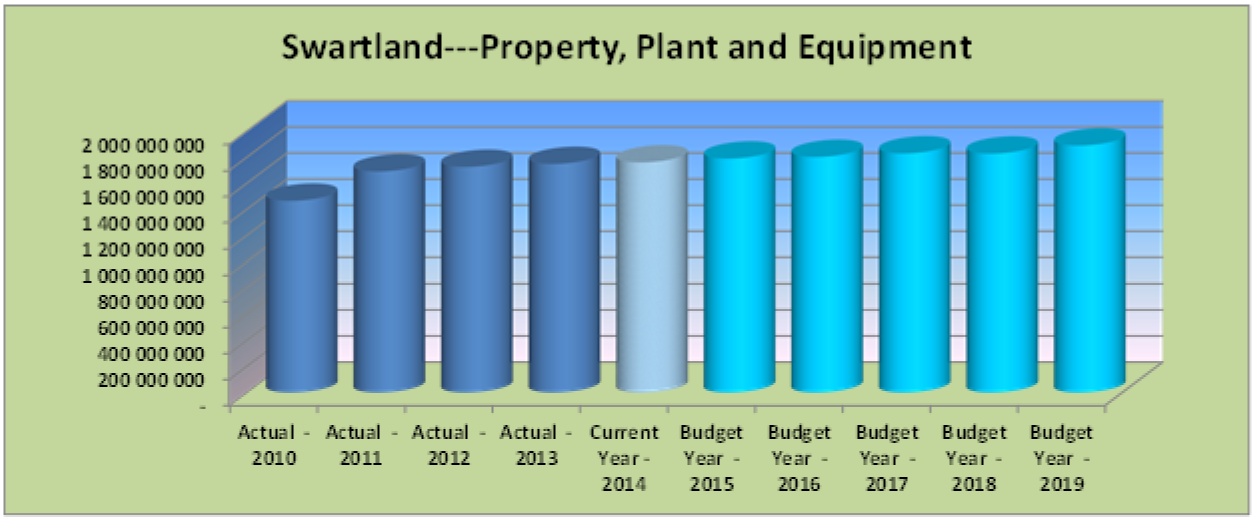
The declining trend in cash is also negatively impacting in the current ratio of the municipality. This ratio will also fall below the acceptable ratio of 2:1 during 2018/2019.



To ensure the financial viability of the municipality, that is largely dependent on the preservation of cash reserves, the municipality should address the downward trend in cost coverage and current ratio as a matter of urgency. Even though it is prescribed by Circular 71 of the National Treasury that a cost coverage ratio of 1 to 3 months should be maintained at all times, the municipality is best advised to ensure that this ratio remains at a level of 4 as recommended per the model developed by the Western Cape Provincial Treasury

8. SECTION 8: FINANCIAL OVERVIEW: ASSET MANAGEMENT

Swartland Municipality has a large investment in property, plant and equipment (PPE). The carrying value of PPE is projected to be very constant over the period under review as capital additions is projected to be approximately in line with the annual depreciation charge:



This large investment in PPE is basically the result of a continued large capital program employed at the municipality to ensure that basic services are delivered at all times and service delivery backlogs are addressed. The municipality should however be conscious of the fact that a significant capital program, if not financed through a well-balanced mix (grants, long term liabilities and accumulated internal funds), can have a negative effect on the financial sustainability of the municipality. Not only does the outflow of cash (as a result of the acquisition) have a potential negative impact on the financial viability of the municipality, the maintenance burden placed on the municipality could also be significant.

It is projected that the municipality will employ the following capital program over the next 5 years (2014/2015 to 2018/2019):

R thousand	Budget Year 2014/15	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18	Budget Year +1 2018/19
Total Capital Expenditure - Standard	**107 496**	**89 832**	**102 527**	**72 318**	**133 637**
Funded by:					
Government Grants	**48 520**	**51 268**	**37 338**	**29 338**	**21 917**
Public contributions & donations	1 500	1 500	20 000	–	–
Borrowing	–	8 500	18 500	23 500	48 866
Internally generated funds	57 476	28 564	26 689	19 480	62 854
Total Capital Funding	**107 496**	**89 832**	**102 527**	**72 318**	**133 637**

To ensure that the above structure is affordable, the program should be evaluated against the municipality's ability to generate cash to meet the demand of the program:

R thousand	Budget Year 2014/15	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18	Budget Year +1 2018/19
Cash Generated by operations	**75 691**	**56 349**	**72 523**	**37 055**	**41 447**
Repayment of borrowing	(3 766)	(5 748)	(6 228)	(6 860)	(8 445)
Loans to be raised	–	8 500	18 500	23 500	48 866
Cash available for capital purposes	**71 925**	**59 101**	**84 795**	**53 695**	**81 867**
Proposed capital program	107 496	89 832	102 527	72 318	133 637
Shortfall	**(35 571)**	**(30 731)**	**(17 732)**	**(18 624)**	**(51 770)**

It is evident that insufficient funds are generated from operations to meet the demand of the capital program. Even taking into account the proposed loans to be raised, the capital program will still significantly contribute to the decline in cash resources as identified in Section 7 of this report.

The municipality is left with the following alternatives to ensure that the capital program is affordable:

1) Raise more loans to fund the program. This will require a further study into the level of external funding the municipality can afford (Refer to Section 9);
2) Cut back on operational expenditure and/or increase internal revenue sources;
3) Explore further avenues to obtain more grant funding (keeping in mind the additional maintenance expenditure that will still be the liability of the municipality even though the additional acquisition is financed from external sources); and/or
4) Reduce the capital program to ensure that it is affordable within the limitations of the current structure the municipality is operating in.

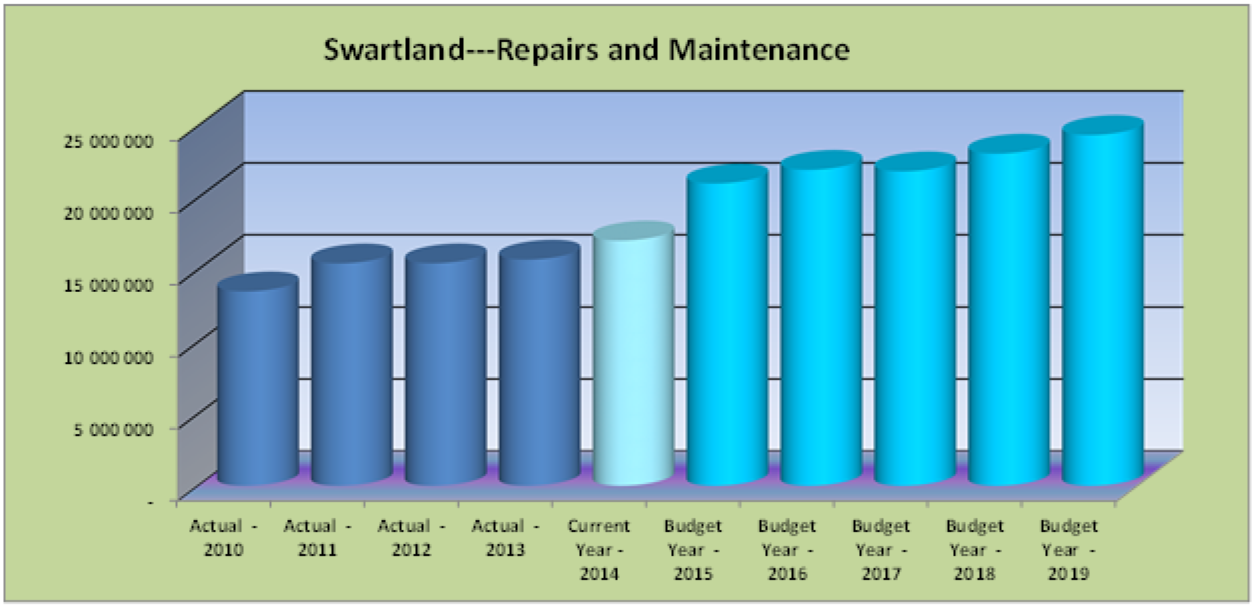
Decisions relating to the perfect capital program to be employed are one of the toughest in the municipal environment. The municipality needs to strike a balance between providing high quality basic services and eradicating service backlogs **versus** the availability of funding.

The funding mix of the capital program should never compromise the long term sustainability of the municipality. Once the financial sustainability of the municipality is compromised, it will inevitably result in a negative outcome for all parties involved due to the fact that the municipality will not be in a position to meet the service delivery expectations of the community for the foreseeable future. This scenario is very common at a number of municipalities in South Africa.

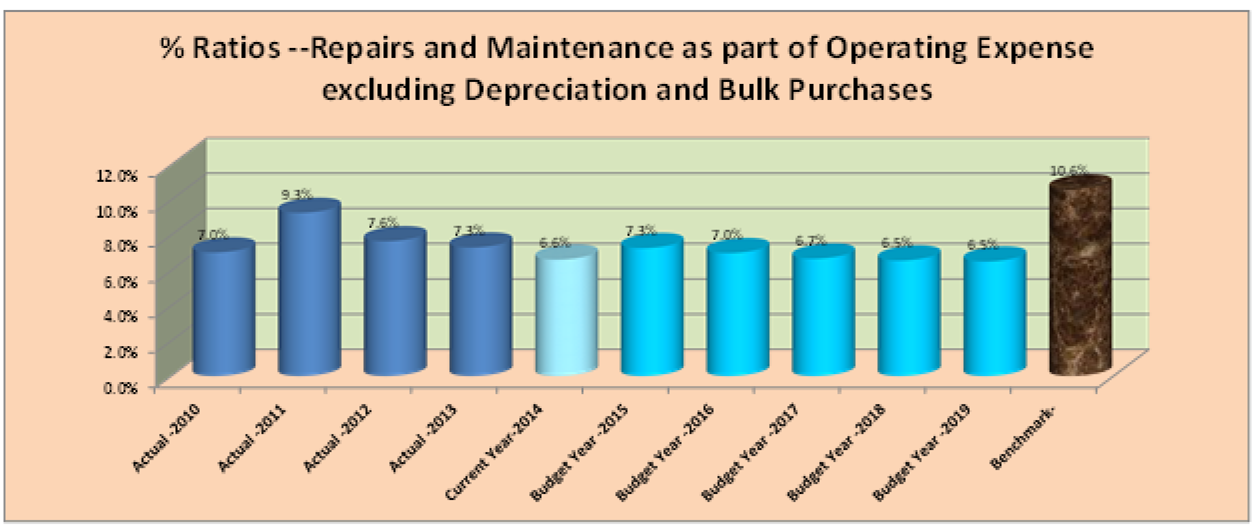
Furthermore, given the fact that the current capital program is already exceeding the limit of what the municipality can afford, the municipality has also identified further short term capital needs amounting to approximately R 103 million that are not included in the budgeted figures to date.

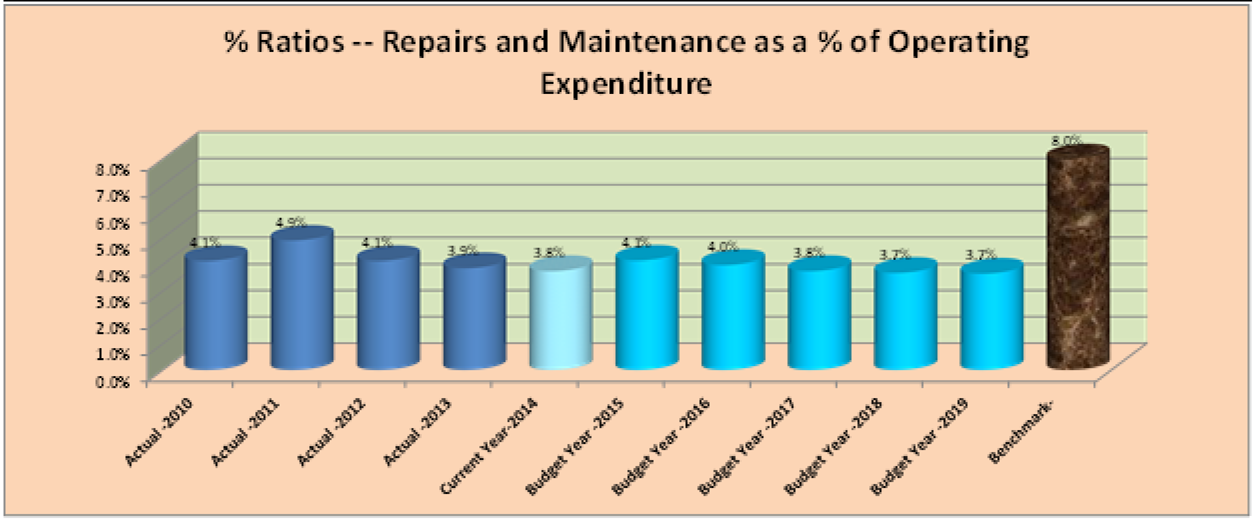
Repairs and maintenance is also considered to be one of the major line items relating to asset management. Repairs and maintenance is very important to ensure that full benefits are derived from assets over the initial expected life time of the assets. Insufficient allocations to repairs and

maintenance could result in shortened useful lives of assets. This in turn will result in assets needing replacement sooner rather than later. The following allocations are made towards repairs and maintenance:

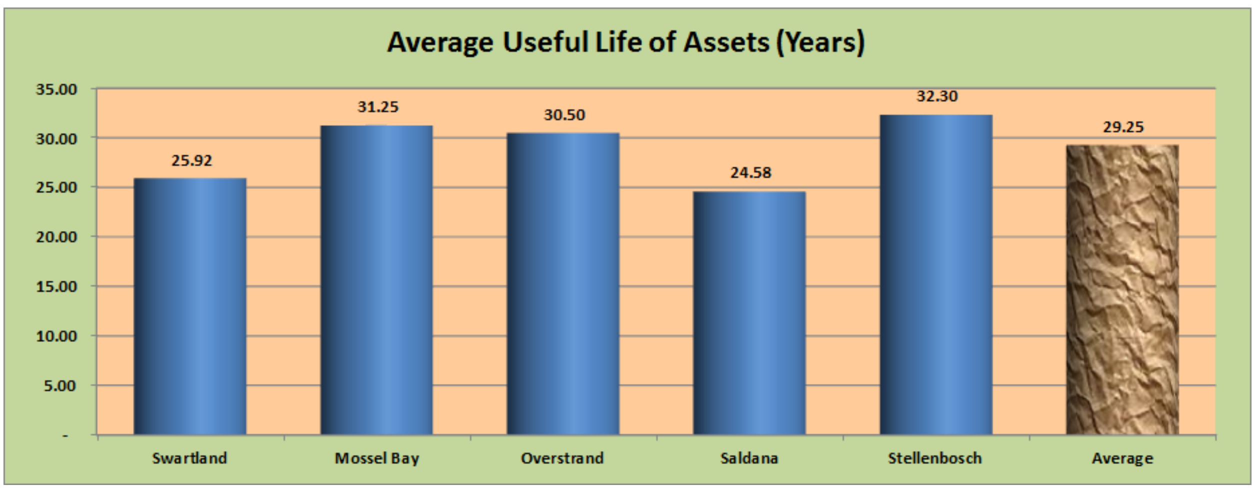


Compared to set benchmarks, the municipality is not contributing sufficient resources to the maintenance of assets:





This insufficient contribution to repairs and maintenance could potentially be the major contributing factor to the following analysis where the average useful life of assets is compared between the municipalities in the Benchmark Group:



At 25.92 years, the average useful life is significantly lower than the average for the group, with only Saldana Bay Municipality having a shorter average useful life. This entails that assets are written down to zero value much sooner than the most of the major peers. This will result in assets needing replacement more often and placing even more pressure on the cash reserves of the municipality.

9. SECTION 9: FINANCIAL OVERVIEW: FUNDING AND RESERVE STRATEGY

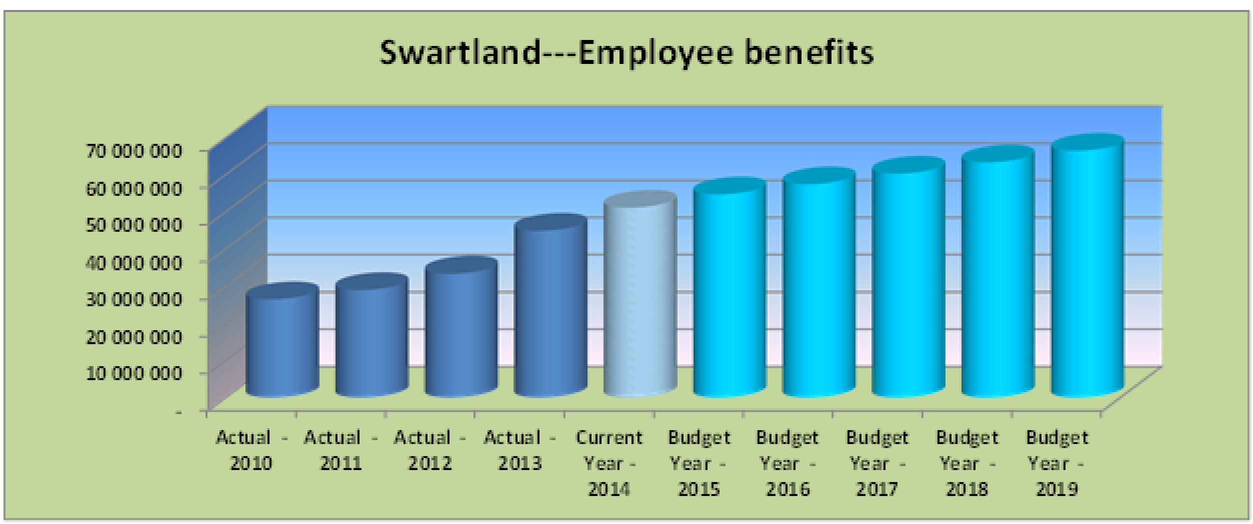
The funding and reserve strategy consists out of three components:

- Management of Reserves
- Management of external debt
- Investment Strategy

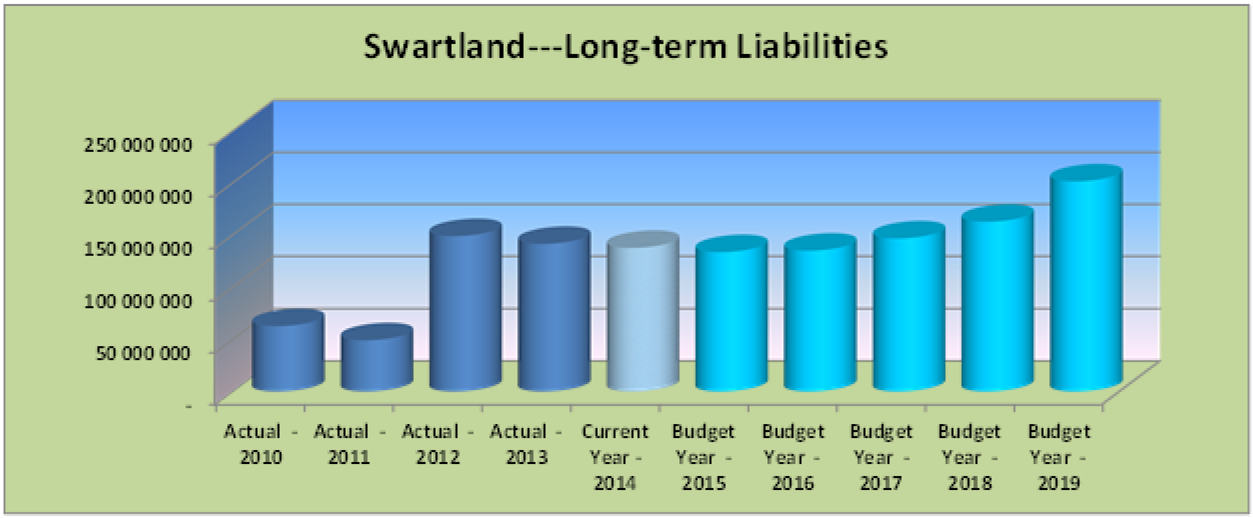
In order to maintain any form of reserve, the municipality needs to ensure that sufficient cash resources are available to back the reserve. With the downward trend in cash identified in Section 7 of this report, the municipality will not be able to maintain, let alone increase, any of the current reserves that is being utilised. Currently the municipality only utilises a Capital Replacement Reserve.

Apart from the Capital Replacement Reserve, that is utilised to provide funding for internally funded projects, the municipality should also recognise the need for other reserves to be created. With reference to the statement of financial position, the municipality has material non-current provisions in the form of Employee Benefit Provisions (Long term awards and Post-retirement medical benefits). There is currently no legal requirement to ensure that these provisions are cash-backed. However, the municipality should implement strategies that will enable the creation of reserves to ensure that these provisions are cash funded when it becomes due and payable.

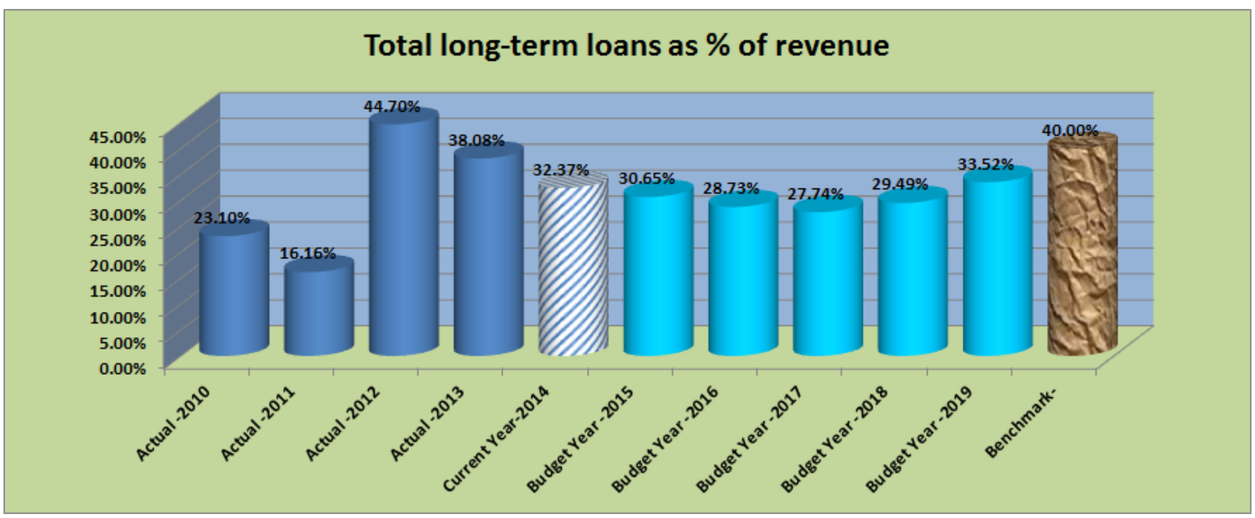
The employee benefit provision was stated at R 51 043 000 on 30 June 2014 and is projected to increase to R 66 386 000 in 2018/2019



External borrowing is an important part of the funding model of the municipality. Not only does it instantly provide the municipality with relatively inexpensive capital to fast-track service delivery and infrastructure backlogs, but it also ensures that the user of the infrastructure pay for the use over the lifetime of the asset. The current capital program provides for a significant portion of the program to be financed through external financing. Over the period up to 30 June 2019, the outstanding long term liabilities of the municipality are expected to grow as follows:

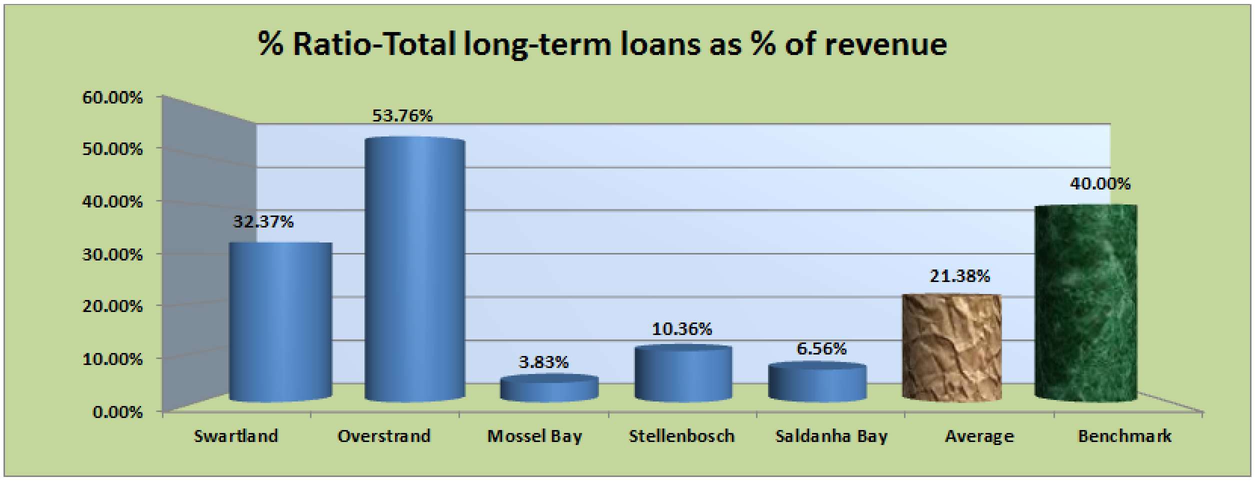


The municipality utilises a debt-ceiling of 40% of revenue. Based on this ratio, it can be seen that the municipality is set to remain within these limits up to the 2018/2019.



It should be noted that the figures does not include any long term liabilities (approximately R 70 million) relating to the water function to be transferred from the West Coast District Municipality. Any significant loans to be added to the current funding mix could potentially increase the outstanding long-term loans above the set debt ceiling.

Compared to the other municipalities in the Benchmark Group, Swartland Municipality and Overstrand is probably the worst geared towards any additional external loans.



The final component of the funding and reserve strategy relates to investments. The municipality is currently employing a sound strategy with regards to investments as investment returns surpassed the projected returns for the 2013/2014 by approximately R 2 million. These sound strategies should be maintained to ensure that excess cash is invested at all times to maximize returns.

10. SECTION 10: RISK MANAGEMENT

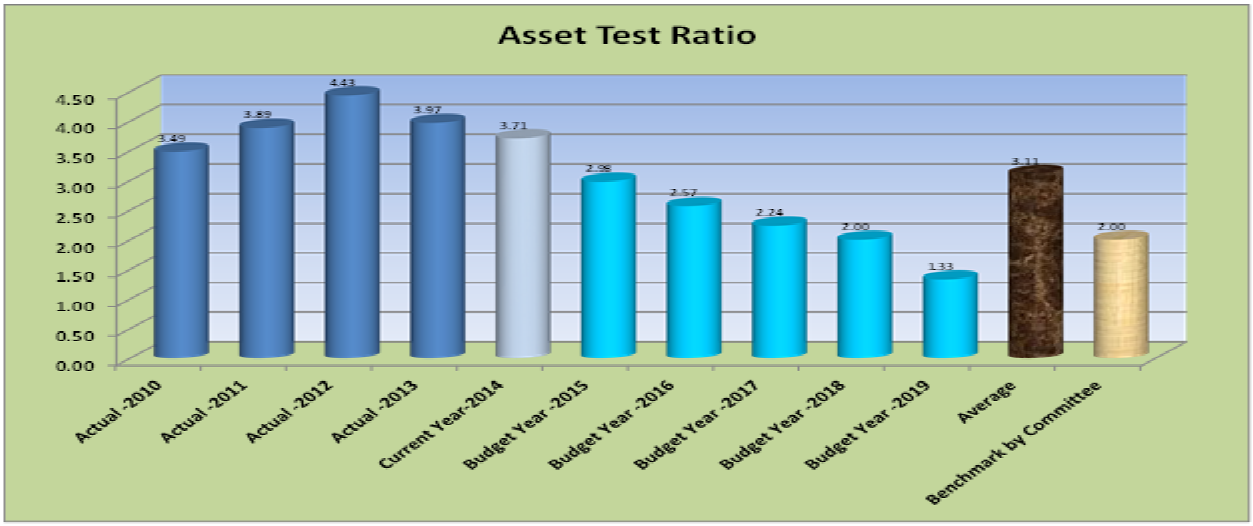
The risk analysis model utilised by Swartland Municipal and based on the model jointly developed by Swartland Municipality and the Western Cape Provincial Treasury assesses 10 key ratios that is considered the most important indicators when assessing the long term viability of the municipality. A weighting is attached to each indicator that will eventually provide the municipality with a viability score out of 100.

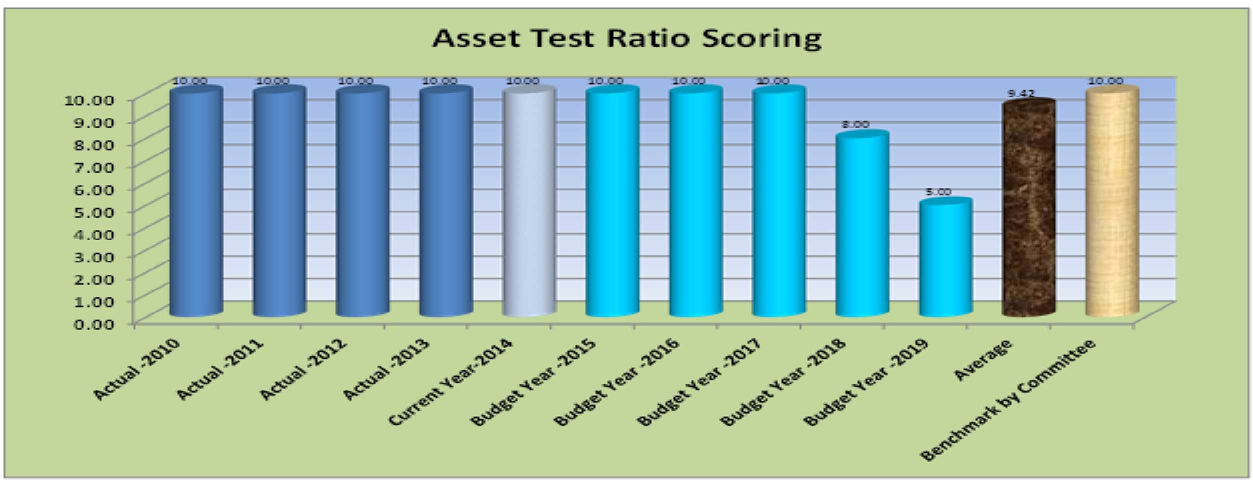
The 10 indicators, along with the proposed benchmark and weight are included in the following table:

ITEM	Benchmark	Viability Weight	Standard 1	Score 1	Standard 2	Score 2	Standard 3	Score 3	Standard 4	Score 4	Standard 5	Score 5
Asset Test Ratio	200%	10	200%	10	150%	8	100%	5	50%	2	0%	0
Payment Level (Excluding write-off of bad debts)	> 95%	15	95%	15	90%	11	85%	6	80%	3	75%	0
Cash Generated from Operations as % of Revenue	> 20%	8	20%	8	15%	6	10%	4	5%	2	0%	0
Purchase of PPE as % of Cash Generated	< 100%	8	100%	8	110%	6	120%	4	135%	2	150%	0
Cost Coverage (Excluding Unspent Grants)	4	15	4	15	4	10	3	5	2	2	1	0
Debtors Turnover (days) (Before impairment)	< 45 days	2	75	2	90	1	110	0	130	0	150	0
Longterm debt as % of Revenue	< 40%	5	40%	5	50%	4	75%	3	95%	2	100%	0
Debt servicing cost to Revenue	< 5%	8	5%	8	7.50%	6	10%	4	12.50%	2	15%	0
Short-term debt as % of Cash	< 100%	4	50%	4	70%	3	80%	2	100%	1	125%	0
Cash Funded Budget over MTREF	> R0	25	Yes	25	No	0	0	0	0	0	0	0

10.1 Asset Test Ratio

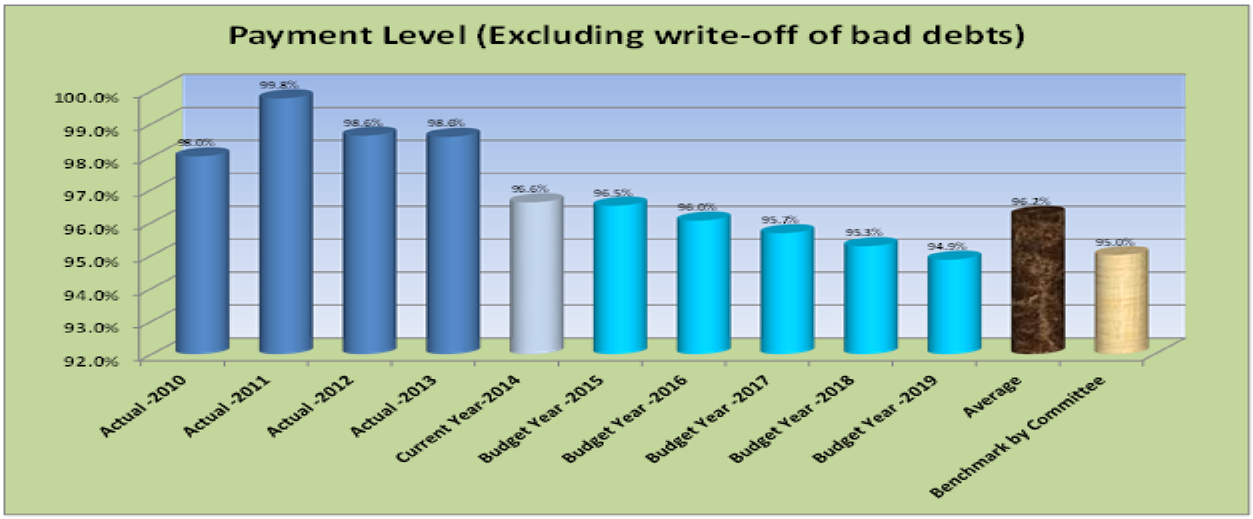
The downward trend in the Asset Test Ratio can mainly be attributed to the decline in cash resources (Section 7) as the municipality is applying sound measures relating to debtors and creditors.

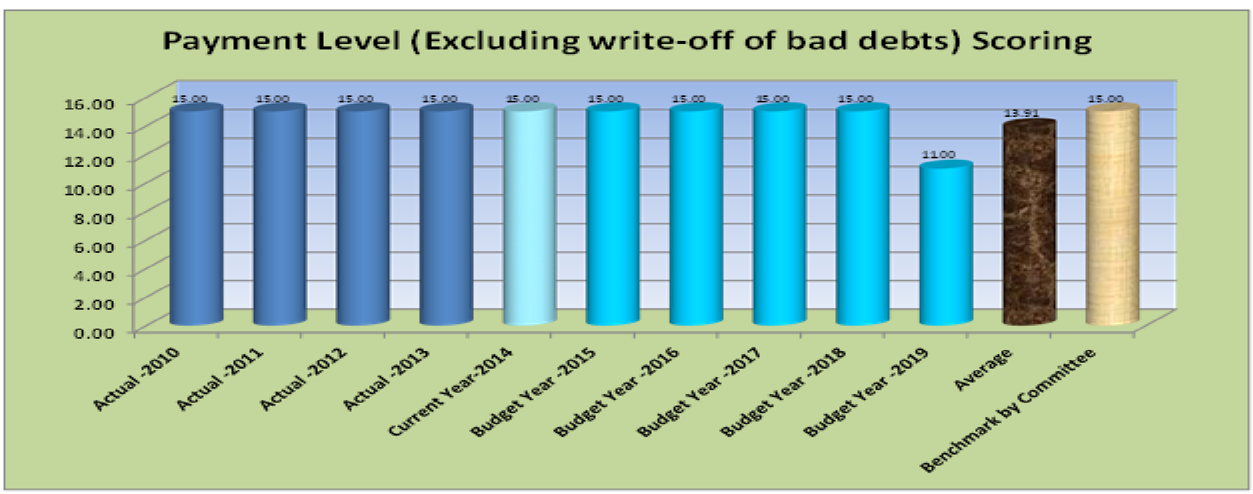




10.2 Payment Level

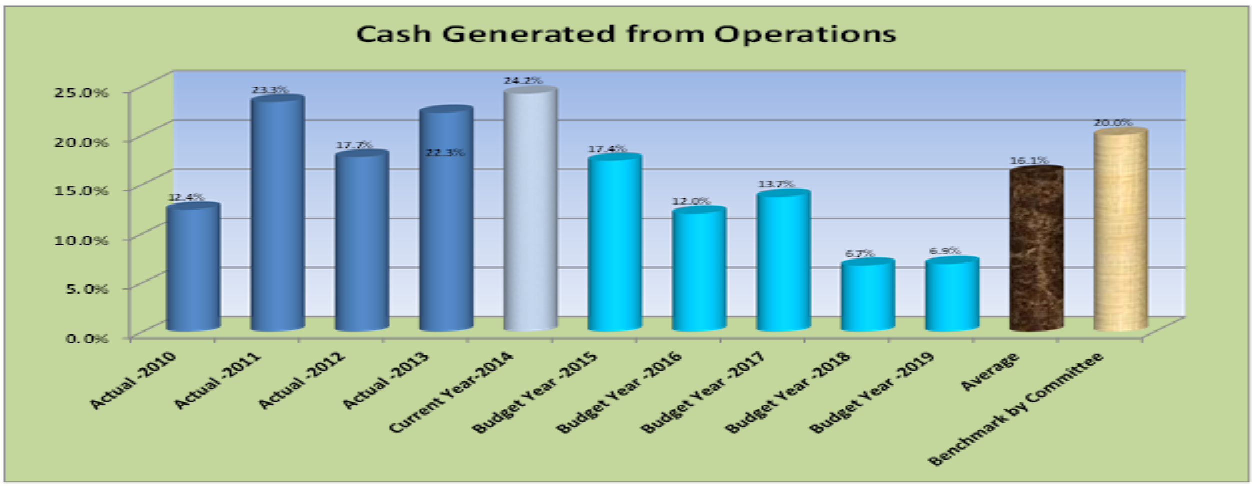
The payment level of the municipality remains consistently good throughout the entire period under review. Taking into account the fact that the municipality is applying a conservative approach to the projection of debtors, this ratio is considered sound and in line with the benchmark of 95% (Section 6)

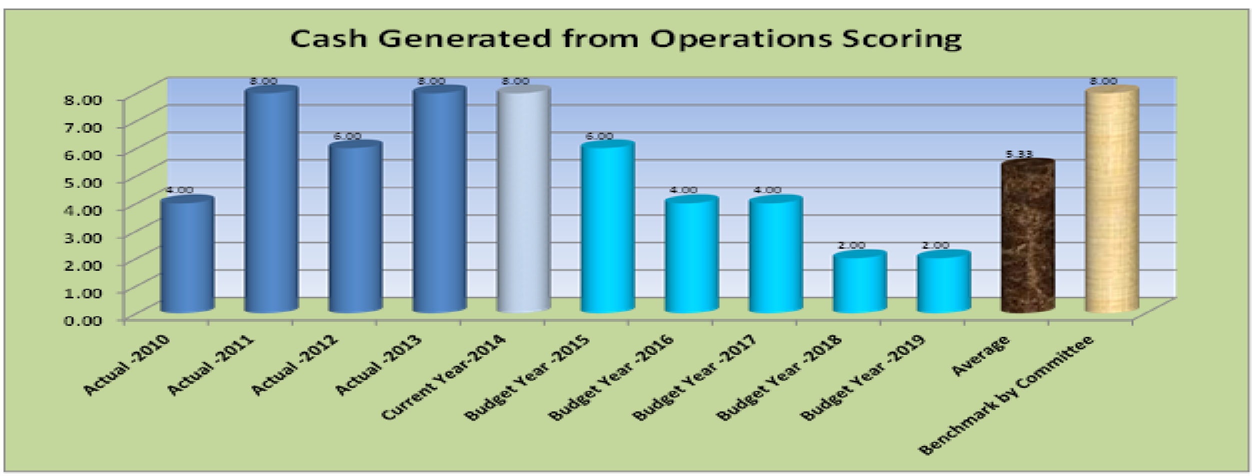




10.3 Cash Generated from operations as % of revenue

This ratio is concerning over the period from 2014/2015 to 2018/2019. The ratio indicates the ability to convert revenue raised into cash. To a limited extent, the ratio is affected by the conservative approach followed when factoring payment level into the budgeted forecast for debtors. The trend is more an indication of the municipality's inability to pass on increases in major expenditure line items (ie Employee Related Costs, Bulk Purchases etc) to the consumer in the form of tariff and rates increases (Section 1 and 2).

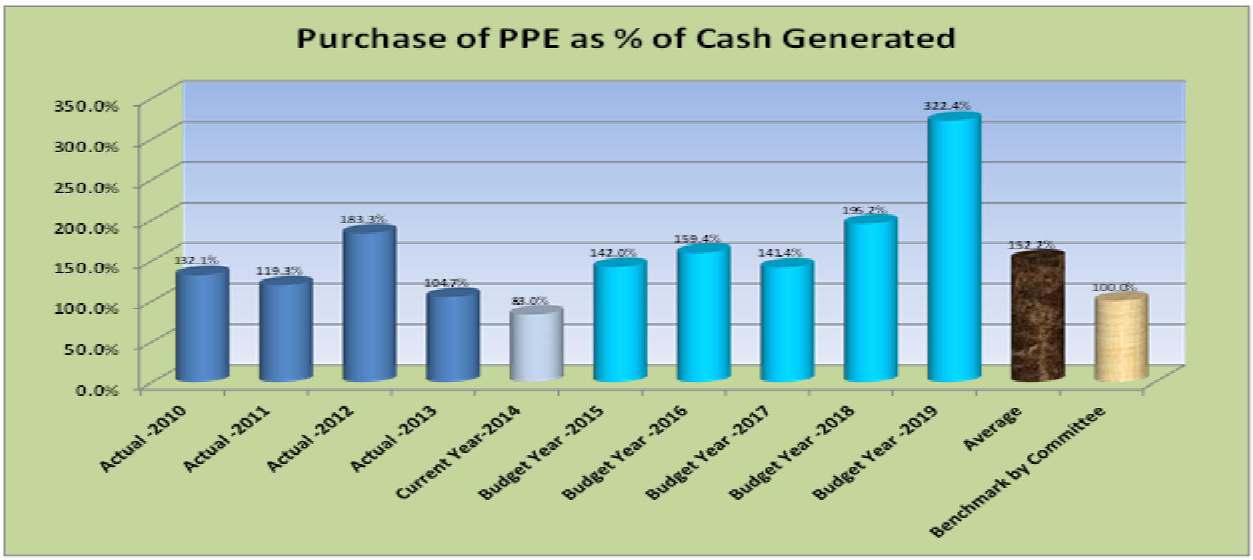


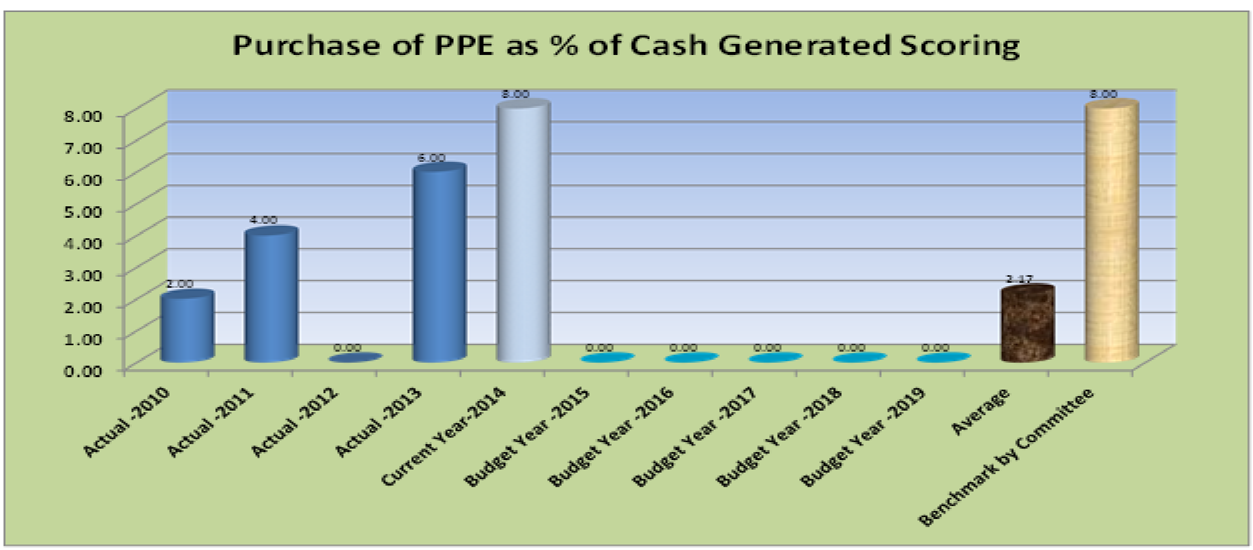


10.4 Purchase of PPE as % of Cash Generated by operations

This indicator measures the ability of the municipality's operations to generated sufficient cash to fund the capital program of the municipality. Any ratio in excess of 100% entails that insufficient cash is generated to meet the proposed capital outflow. Any shortfall will need to be financed using accumulated cash reserves or new external financing in the form of loans. As discussed in Section 8, the capital program is placing enormous pressure on the accumulated cash reserves of the municipality.

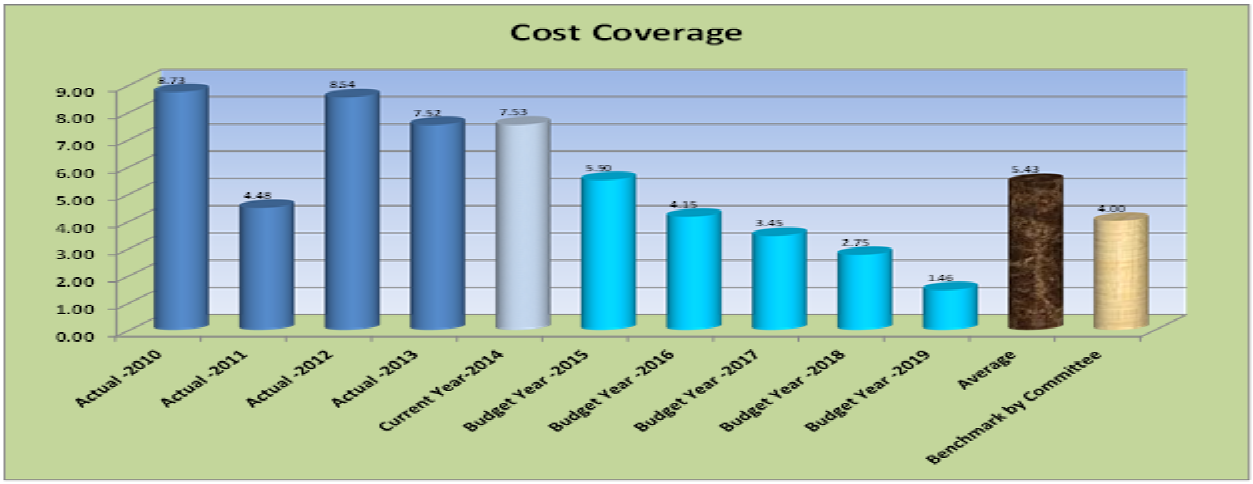
This indicator does not contribute to the financial viability scoring of the municipality and should be addressed.

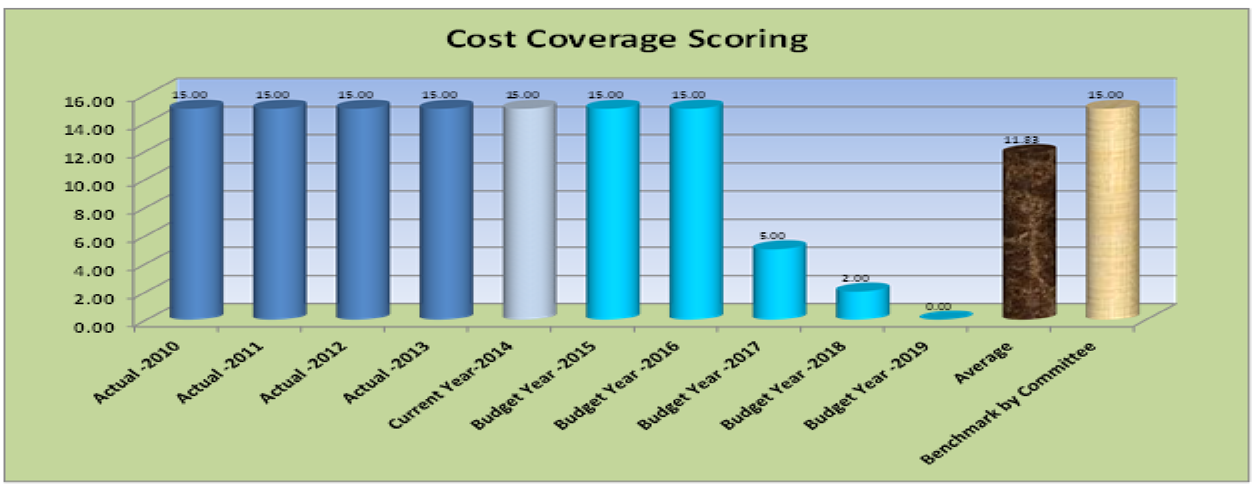




10.5 Cost Coverage

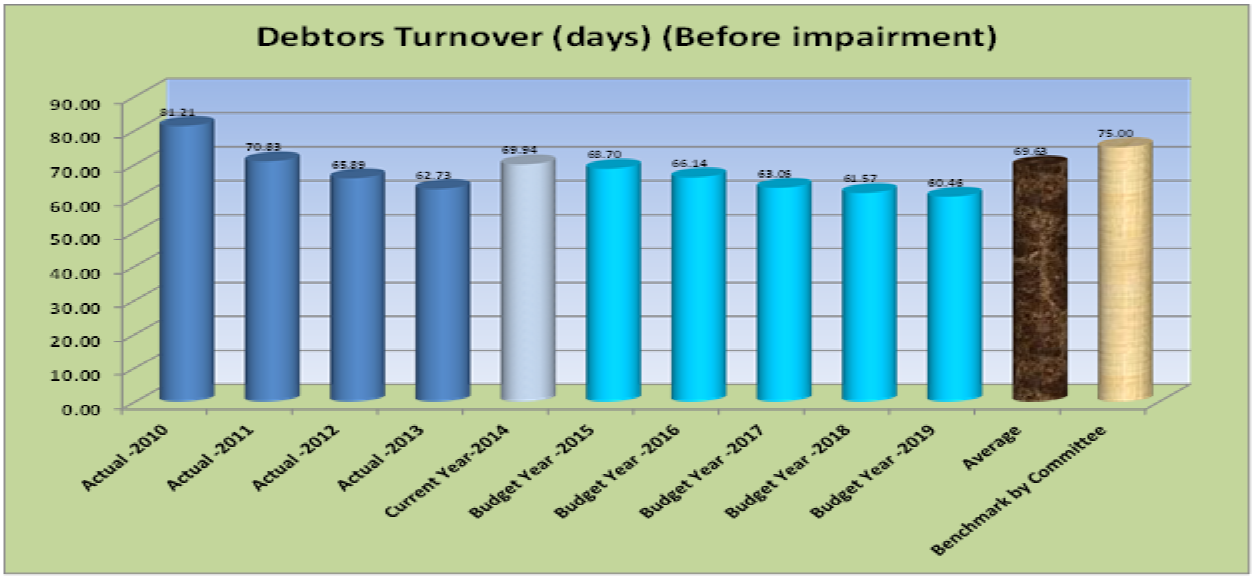
As is the case with the Asset Test Ratio in Section 10.1, this indicator is negatively affected by the declining trend in cash and cash equivalents expected over the period 2013/2014 to 2018/2019.

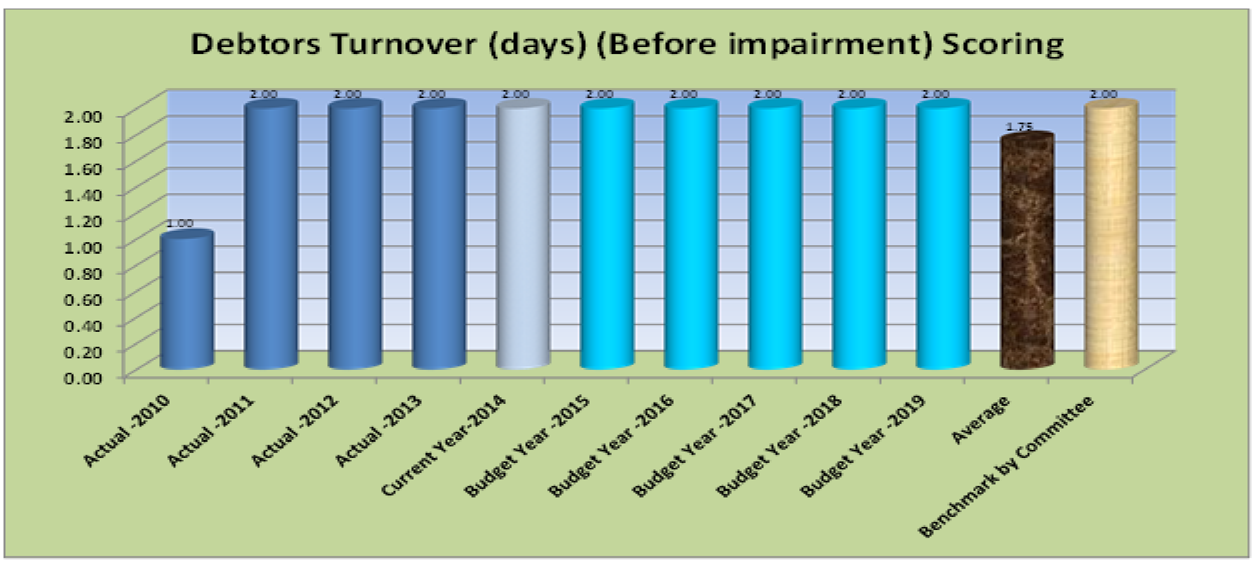




10.6 Debtor Turnover Days

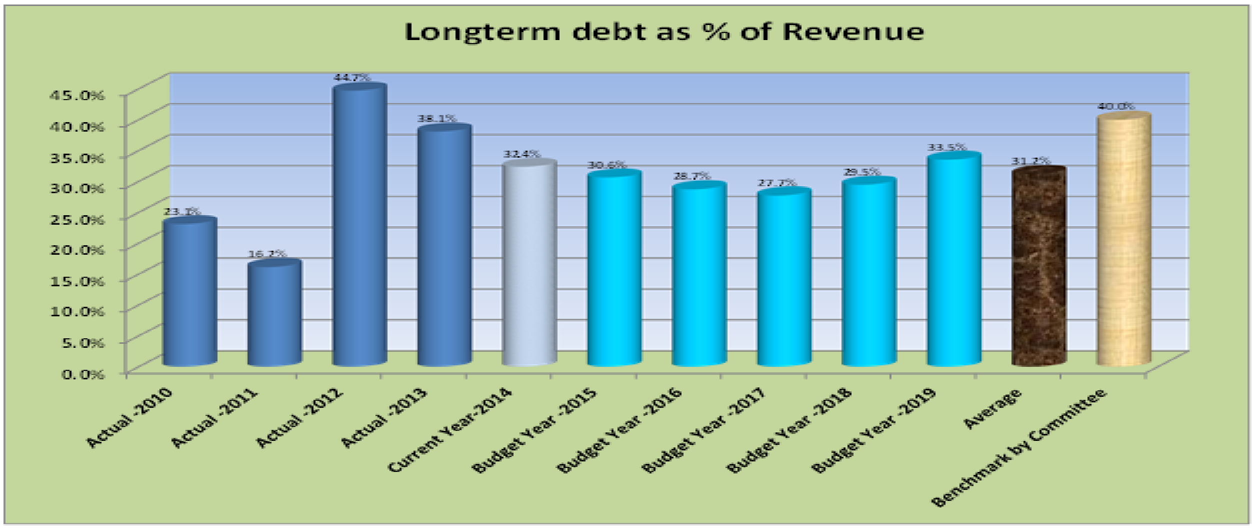
Debtors are well managed and it is expected that the municpality will not experience any significant issues with regards to the Debtor Turnover Days indicator

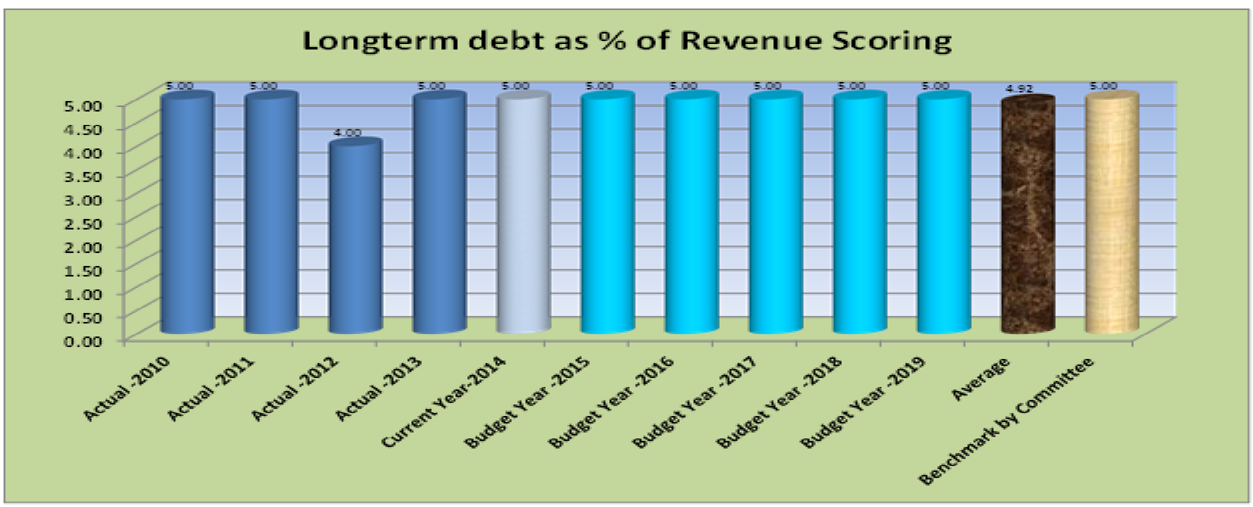




10.7 Long Term Debt as % of Revenue

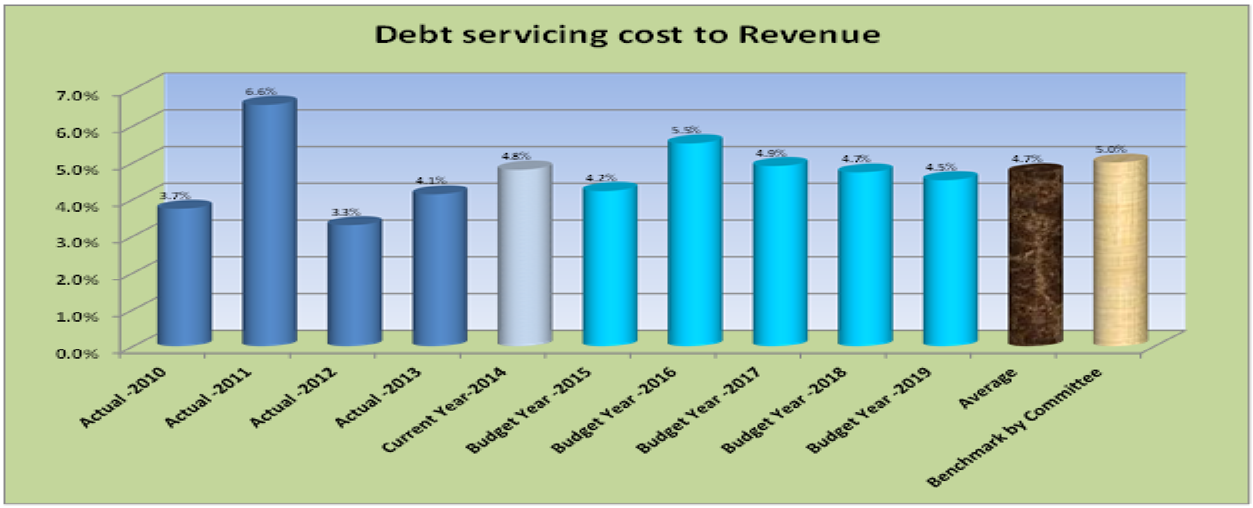
This indicator measures the debt ceiling as discussed in Section 9. Currently, the municipality is projected to be within the limits of the ceiling. However, the municipality should be mindful of the fact that any material additional loans could increase the level of external borrowing above the set ceiling of 40%.

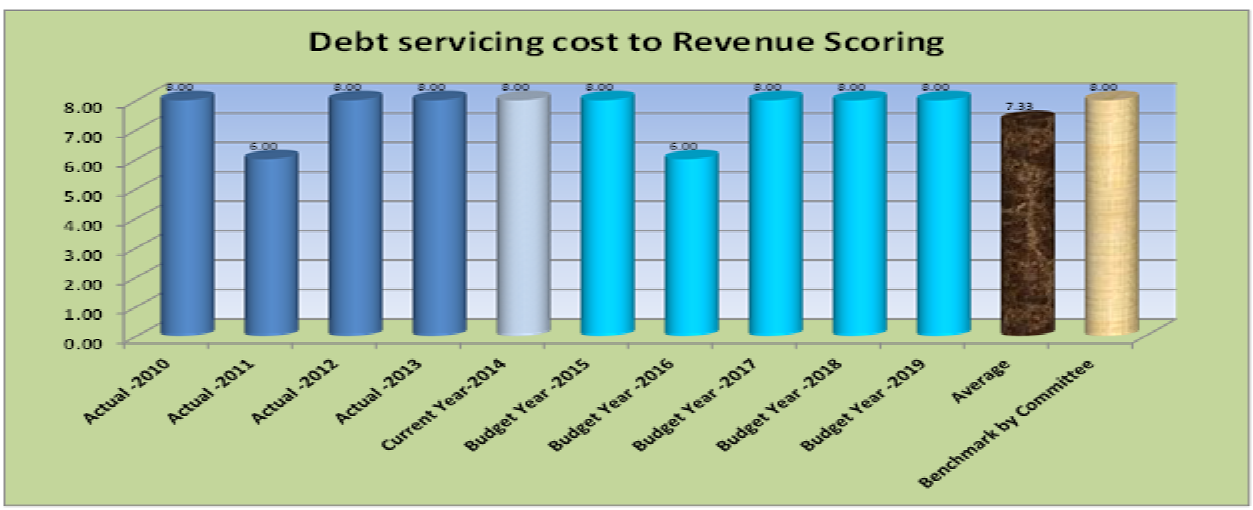




10.8 Debt Servicing cost to Revenue

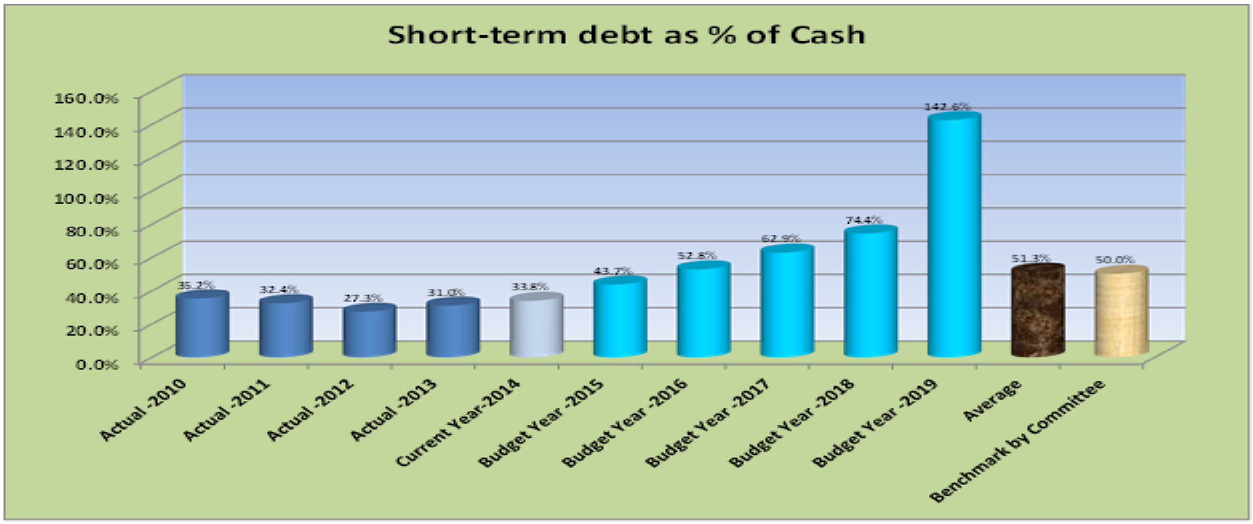
This indicator measure the portion of revenue spent on the repayment of borrowing and should be reviewed in conjunction with the debt ceiling indicator in section 10.7. It is projected that the municipality will be well within the limit of 5% throughout the budgeted years, with the exception of 2015/2016 where the indicator returned a result slightly higher than 5%.

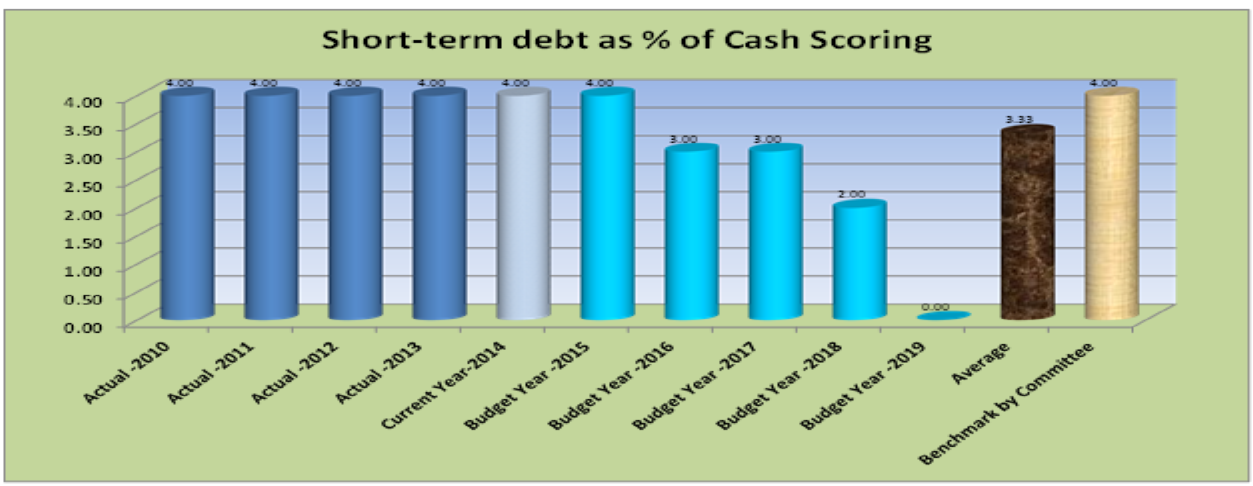




10.9 Short-term debt as % of Cash

Similar to the Asset Test Ratio (Section 10.1) and the Cost coverage (Section 10.5), this ratio is negatively affected by the declining trend in cash and cash equivalents.

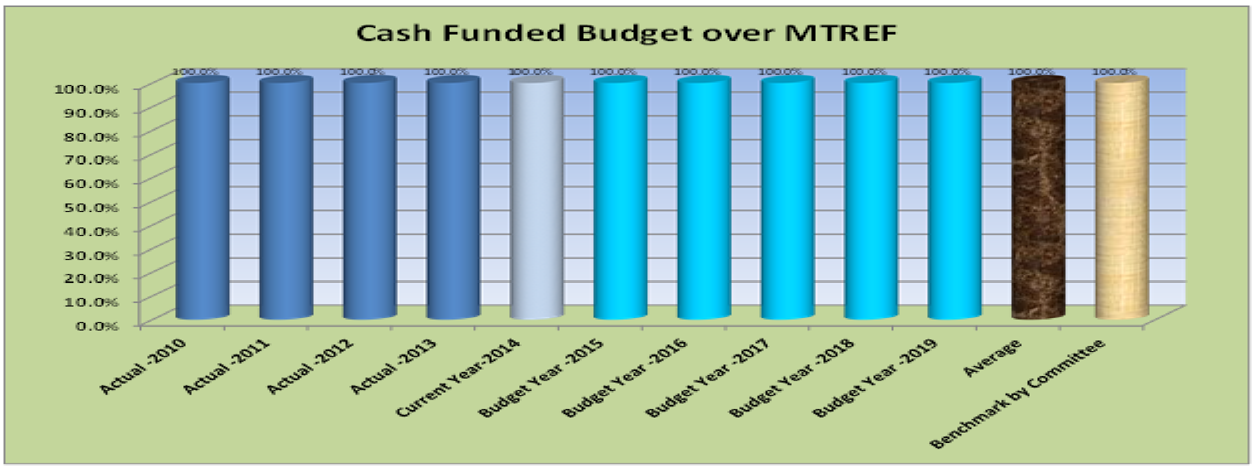


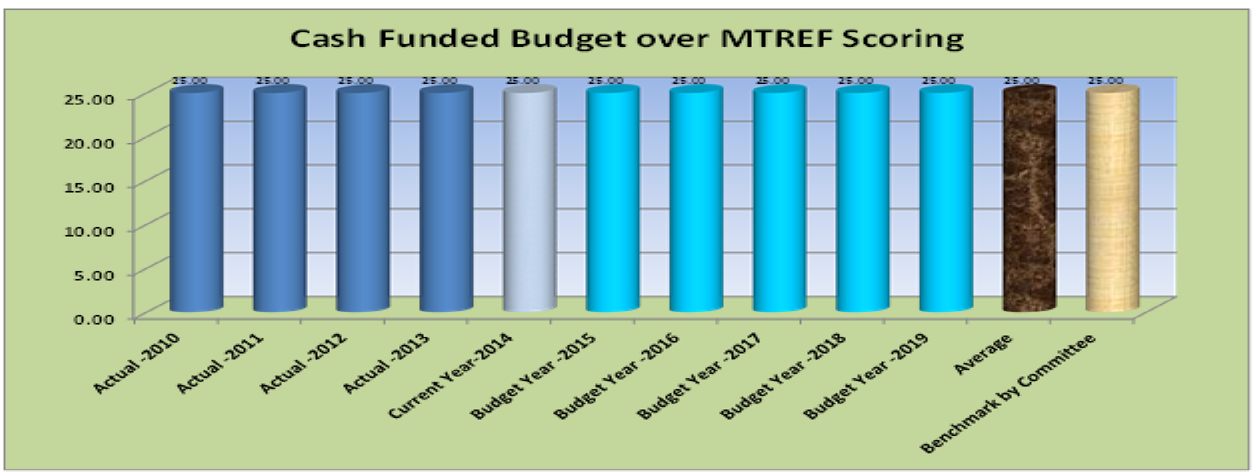


10.10 Cash Funded Budget

The “Cash funded budget” indicator is one of the most important indicators when assessing the credibility and sustainability of any budget. For this reason, the indicator contributes 25% to the total viability scoring of the municipality.

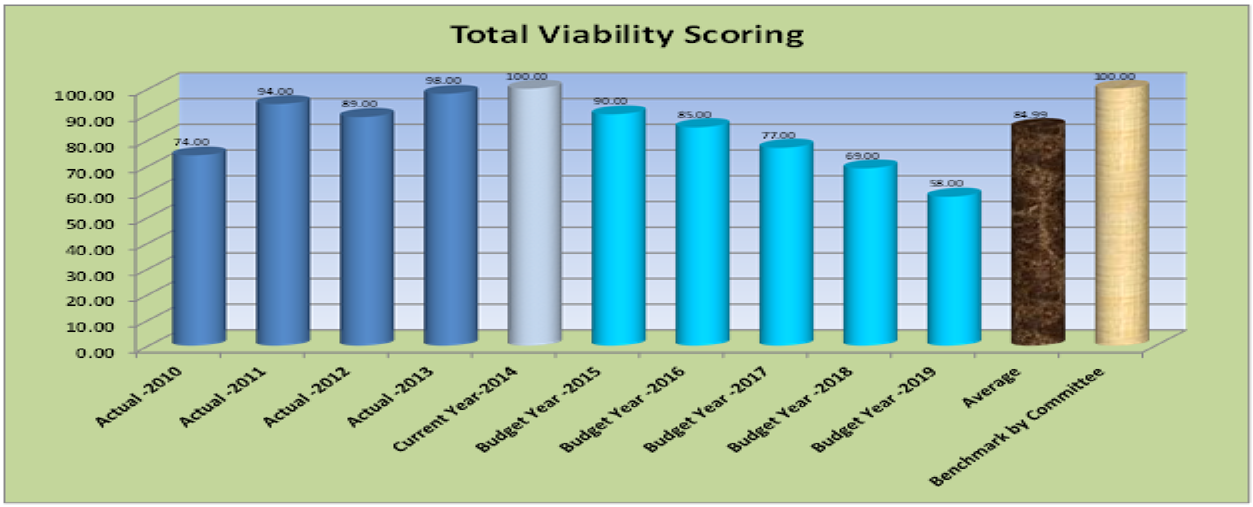
The indicator shows that the municipality will be cash funded through to 2018/2019 and thus the municipality will score the maximum points from this indicator.





10.11 Conclusion

Based on the 10 indicators above, the viability scoring of the municipality is projected to decline over the period up to 2018/2019. This decline can mainly be attributed to the decline in cash reserves over the same period.

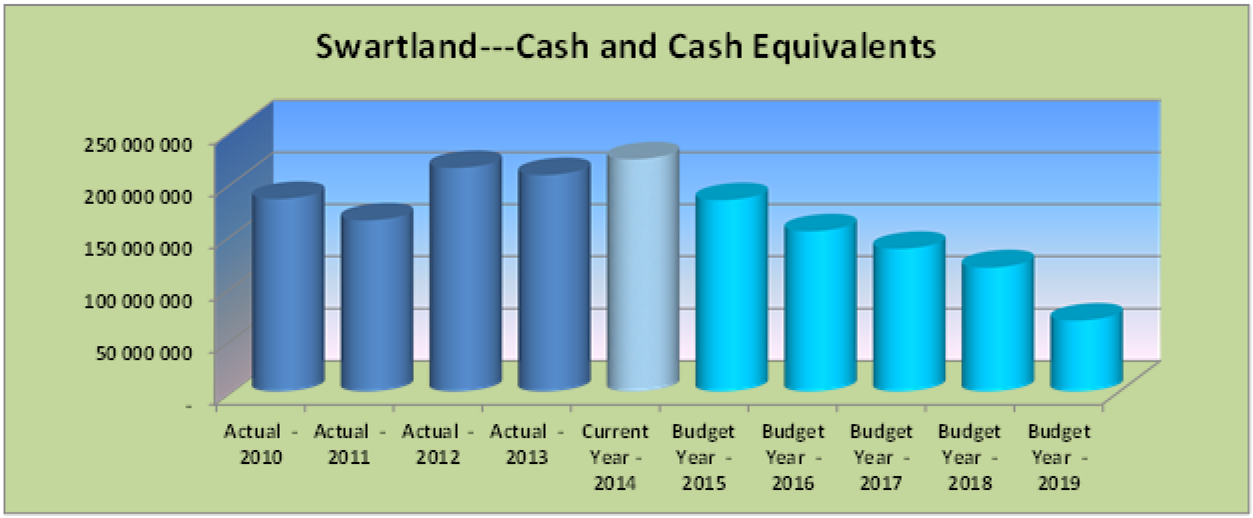


The municipality is currently in a very fortunate position. Not only did the 10 indicators return a viability scoring of 100 as recently as 2013/2014, but despite the many challenges identified in this report, the municipality will still be in a position to present a cash funded budget by 2018/2019.

The municipality is still very much in control of their own destiny and by making good informed decisions relating to the capital and operating budget, the municipality should strive to maintain its viability scoring to a level as close as possible to the outcome attained in 2013/2014.

11. SECTION 11: MODELING OF FINANCIAL PLAN AND SCENARIO SETTING

The main challenge identified in this report relates to the following downward trend identified in cash and cash equivalents.



This downward trend should be addressed to ensure that cash resources are maintained at acceptable levels that do not negatively impact on the various indicators and benchmarks.

Plans and strategies should be developed to ensure that the downward trend in the viability scoring (identified in Section 10) be addressed to achieve the maximum viability score of 100. Plans and strategies should include the following:

- Strategies should be developed to eradicate infrastructure backlogs and current shortage in housing. (Section 2 and 3)

- Strategies should be developed to ensure the GDP growth remains in line with the rapid growth in population numbers. The increase in the unemployment rate should also be addressed. (Section 3)

- The declining trend in profit percentage derived from electricity services should be corrected by reviewing the tariffs structure and/or by employing cost cutting measures. Possible reduction in distribution losses (which is already very low) or internal consumption. (Section 4.2.1)

- The Water Service is currently operating at a loss which implies that the tariffs are not cost reflective. The entire tariff structure for water should be reviewed. Step tariffs and basic fees (which are currently not charged) are among the alternatives to consider. It should also be noted that that the water charges of Swartland Municipality are currently significantly lower than its major peers. Thus, there is some scope available to increase water charges to a level that is acceptable when compared to other major municipalities. (Section 4.2.2)

- The municipality must investigate why the collection rate of fines are relatively low compared to its major peers. Appropriate measure must be implemented to improve the collection rate of fines. (Section 4.4)

- Further increases in Employee Related Cost, over and above the current levels, should be managed to ensure that this major line item remain within the set limits. (Section 5.1)

- The municipality should review the capital program (and funding sources) to ensure that it does not negatively impact on the sustainability of the municipality. Alternatives to explore include the following (Section 8):
  - Raise more loans to fund the program. This will require a further study into the level of external funding the municipality can afford (Refer to Section 9);
  - Cut back on operational expenditure and/or increase internal revenue sources;
  - Explore further avenues to obtain more grant funding (keeping in mind the additional maintenance expenditure that will still be the liability of the municipality even though the additional acquisition is financed from external sources); and/or
  - Reduce the capital program to ensure that it is affordable within the limitations of the current structure the municipality is operating in.

- Strategies should be employed to increase the average useful life of asset. Strategies could include the following (Section 8):
  - Ensure sufficient levels of funding is allocated to the upkeep of assets (ie repairs and maintenance);
  - Ensure sufficient allocations are made to the renewal/replacement of assets at levels to be determined by the municipality. The renewal/replacement program employed by the municipality should lengthen the average useful life of assets.

- Strategies should be developed to mitigate the potential negative financial impact that the transfer of the bulk water service function from the West Coast District Municipality could have on the municipality. The current debt ceiling of the municipality will not accommodate any further material external debt. (Section 9)

- Cash levels should be maintained at acceptable levels to allow for reserves (ie Capital Replacement- and Employee Benefit Reserve) to be created in line with the funding and reserve policy of the municipality. (Section 9)